DOCUMENT RESUME

ED 146 355 CE 012 709

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TITLE Insurance. School Business Management Handbook No. 2. Revised.
INSTITUTION New York State Education Dept., Albany. Div. of Educational Management Services.
PUB DATE 77
NOTE 140p.

EDRS PRICE MF-$0.83 HC-$7.35 Plus Postage.
DESCRIPTORS Administrator Guides; Financial Policy; Fire Insurance; Guides; Health Insurance; *Insurance Programs; Junior High Schools; Middle Schools; Money Management; *Program Administration; *Public Schools; *School Personnel; *School Policy; School Safety; Secondary Schools; *Students; Unemployment Insurance

ABSTRACT

To provide a practical tool for school insurance management, information concerning various types of insurance coverage and the policy forms used is provided in this handbook. Using a question and answer format the material is presented in eight chapters covering the following areas: (1) insurance on real and personal property; (2) liability insurance; (3) fidelity and surety bonds; (4) special multi-peril policies; (5) pupil accident insurance; (6) workmen's compensation and employers' liability insurance; (7) group insurance on school district employees; and (8) administrative aspects of the school insurance program (provides information as to where a specific coverage, or policy, fits into the overall insurance program). A glossary of insurance terms are appended, and a detailed index concludes the handbook. (BL)

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SCHOOL BUSINESS MANAGEMENT HANDBOOK NO. 2

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INSURANCE

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FOREWORD

This is the second revision of the Insurance Handbook, one of the series of nine "School Business Management Handbooks," published by the Division of Educational Management Services.

Recognition of the need for assistance in the important and complex area of school insurance is evidenced by the fact that the field staff of the Bureau of Special Educational Management Services includes a school insurance specialist. The new edition of the Insurance Handbook serves to further emphasize the significance of this area of school administration.

The Handbook includes a review of No Fault Automobile Insurance, a major innovation in this area. It also includes important information concerning both competitive and cooperative placement of school insurance. In addition, school officials will find the outline of a typical school insurance program of particular benefit in carrying out their responsibilities in this vital aspect of school business management.

This revision was prepared by E. Lloyd Rogers, CPCU, an Insurance Consultant located in Albany, New York who has specialized in school insurance for many years. Paul E. Jensen, School Insurance Advisor of the Bureau of Special Educational Management Services worked closely with him throughout the process. Supervision of the project was provided by Samuel T. Frone, Chief, and Morris L. Shapiro, Supervisor, of the Bureau of Special Educational Management Services.

Stanley L. Raub, Associate Commissioner
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INTRODUCTION

The careful development and management of an adequate insurance program should be one of the primary goals of a board of education. Such a program not only recognizes the potential hazards that exist, but also safeguards the taxpayers' investment by protecting a school district in the event of unexpected losses. Since the cost of insurance is a nonproductive overhead expense insofar as the instructional program is concerned, it is essential that school officials strive to obtain adequate coverage at a minimal cost.

The purpose of this Handbook is to provide a practical tool for insurance management. Although a major portion of its material consists of detailed information concerning the various types of insurance coverage and the policy forms used, it is not intended to be a comprehensive text.

The popular question-and-answer format, together with a detailed index, used in previous editions of this Handbook has been retained to enable the busy school administrator to quickly locate and identify his immediate area of concern. At the same time, a complete reading of the Handbook will provide a general overview of the subject of school insurance.

This edition contains an outline of a typical school insurance program, which is covered in Chapter VIII entitled, "Administrative Aspects of the School Insurance Program." A review of this outline will provide important information as to where a specific coverage, or policy, fits into the overall insurance program. The list of common alternatives contained therein will serve as a quick reference concerning the relationships between various concepts. For example, with reference to Fire and Related Perils Insurance, it is pointed out that Replacement Cost coverage is an alternative to Actual Cash Value and that Specific coverage versus Blanket coverage is a different consideration.

Another important aspect of this edition of the Insurance Handbook is the additional emphasis placed on economy by a review of the competitive quotation process and the cooperative, or "group," placement concept.

School officials are urged to evaluate their insurance program in the light of the information presented in this document.

IMPORTANT NOTE

In-depth discussions of the coverages available in Special Multi-Peril type policies are provided throughout the Handbook under the separate coverage headings. This material is not repeated in Chapter IV "Special Multi-Peril Policies." The reader concerned with the Special Multi-Peril type policy should study such material in addition to the content of Chapter IV.

CHAPTER I

INSURANCE ON REAL AND PERSONAL PROPERTY

A. FIRE INSURANCE AND ALLIED PERILS

1. What is the basic coverage provided by the New York State Standard Fire Insurance Policy?

The policy insures direct damage caused by fire and lightning at a specified location, including coverage for a period of 5 days for property, endangered by fire, which has been removed from the premises to another place.

2. Are school districts required to carry Fire Insurance?

Yes. The Education Law requires boards of education and trustees to insure the schoolhouses and their furniture, apparatus and appurtenances, and the school library. The law is silent as to the form of protection and the amounts which should be carried, leaving determination of these vital matters to the good judgment of the board of education.

3. On what basis should the amount of Fire Insurance coverage be determined?

The Insured can choose to have the coverage based on either the Actual Cash Value or the Replacement Value of the property.

4. What is the difference between these two types of coverage?

Actual Cash Value (also known as Sound Insurable Value) is the cost of replacing, restoring or reproducing the property, brand new, less depreciation due to use and obsolescence.

Replacement Value is the cost of replacing, reproducing or restoring the property, brand new, without deduction of depreciation. In other words, a school district insuring on the basis of Replacement Value is paid for the full value of the damaged

property, brand new, at the time of loss. However, to collect the full replacement value, the Insured must actually repair or replace the property. Otherwise, the settlement will be on an Actual Cash Value basis.

5. Isn't Replacement Cost Insurance more expensive than Actual Cash Value Insurance?

   The rate per $100 of insurance is the same for either form, but the Replacement Cost policy makes it necessary to write a greater amount of insurance for all except new structures.

6. Why is an accurate appraisal of school buildings and contents necessary?

   a. The New York Standard Fire Insurance Policy, lines 90-103, states that after a loss occurs, "The Insured shall give immediate written notice ....., of any loss, furnish a complete inventory of the destroyed, damaged, and undamaged property, showing in detail quantities, costs, actual cash value, and the amount of loss claimed." It is further required that the Insured shall present Proof of Loss, stating "the actual cash value of each item thereof, and the amount of loss thereto."

   b. School buildings classified as fire-resistive or sprinklered are subject to coinsurance requirements which make imperative a correct determination of insurable values, if a coinsurance penalty is to be avoided.

   c. Guessing at insurable values usually produces either overinsurance, which wastes the taxpayers' money, or underinsurance, which exposes the district to possible serious loss.

   d. Fire Insurance rates are higher on contents than on buildings. An accurate appraisal will make it possible to differentiate correctly between building and contents items.

   e. Blanket Insurance on the Standard Fire Policy and the Special Multi-Peril Policy both require filing a Statement of Values with the rating organization or the company, for determination of the fire rates.

   f. A valued inventory of fixed assets is required by the "Uniform System of Accounts for School Districts," prescribed by the New York State Department of Audit and Control.

7. How can a board of education determine the Sound Insurable Value or Replacement Value of its property?

Appraisals indicating insurable values can be secured from a commercial appraisal company, a qualified contractor specializing in school construction, an architect, or an insurance company. Such values can also be developed by school district personnel.

8. What are the differences in the various types of appraisals available to school districts?

   a. A certified appraisal, made by a commercial appraisal company, is undoubtedly the most accurate and reliable. These companies employ trained specialists whose factual detailed reports eliminate guesswork from the determination of value. Their appraisals are usually supported by detailed descriptions of the buildings, and by lists of equipment and other contents which can be valuable in providing a Proof of Loss to the insurance company. Appraisal companies will furnish values on both buildings and contents, and ordinarily provide both Actual Cash Value and Replacement Value figures. Some appraisal companies are willing to offer expert testimony as to the value of the property if it is necessary for a school district to institute court action against the insurance company. Appraisal companies can provide reports which will satisfy the fixed assets accounting requirement. Finally, appraisal companies have standard procedures for updating the property listing and values at regular intervals.

   b. Contractors and architects may have considerable information about school construction costs, but many have little understanding of the exact coverage under the Fire Insurance policy. The contractor or architect must have accurate information as to the items excluded from insurance coverage, and the proper division between the property classified as building and that classified as contents, if their appraisals are to be reliable. Contractors and architects usually will not appraise contents items. Ordinarily, neither have standard updating procedures to keep the appraisal current.

   c. An insurance company will frequently furnish an estimate of the insurable value of buildings, but will not appraise contents items. Their appraisals are usually made by field men with little formal training in appraisal work, and their reports are usually based on square foot or cubic foot unit prices. As a result, their appraisals sometimes fail to take into consideration the specific features and construction of the building under construction. Insurance company appraisals are usually qualified by a statement that they are not to be considered binding on either the company or the Insured. In fact, the appraisal prepared by one insurance company may not

be acceptable to another company writing part of the insurance on the same premises.

d. School personnel can develop a valued inventory for contents, which, if properly completed and maintained, will provide adequate insurance values and satisfy the fixed assets accounting requirement with respect to equipment. A pamphlet entitled "Inventory Control of Fixed Assets by School District Personnel" is available from the Division of Educational Management Services. The pamphlet offers advice in this area, and a suggested inventory system complete with record card formats.

There is no easy solution to the problem of proper valuation for insurance purposes. Even experts in the appraisal field may vary by considerable amounts in their opinion as to the value of a given property. This is especially true if the premises involve an unusual form of construction, are quite old, or have been renovated. In any event, the school board must be prepared to back up their claims with accurate information from one of the listed sources.

9. How frequently should appraisals be made?

Since property values fluctuate constantly with changing price levels and by reason of usage and depreciation, any appraisal will gradually lose its validity with the passage of time. Commercial appraisal companies offer annual revision service to keep the values and property listings up-to-date. Appraisals from other sources can be brought to current levels by applying one of the recognized cost index factors to the original appraised values. These are published monthly by appraisal services and can be used to adjust the appraisal to current prices. Of course, any changes in construction, or improvements made, must be taken into consideration. After a period of 6 to 10 years, a complete new appraisal is ordinarily recommended.

Contents should be reviewed periodically during the year to add the value of newly acquired equipment, to deduct items eliminated, and to reflect changes in location.

10. What is meant by Coinsurance?

Coinsurance is an arrangement which permits the Insured to receive a reduction in rate in return for purchasing insurance of not less than a given percentage, most commonly 80 or 90 percent of the value of the insured property. Coinsurance has the effect of distributing the cost of insurance fairly among all policy-

holders, by requiring each to carry amounts of insurance proportionate to the value at risk.

If the insured carries enough insurance to comply with the coinsurance clause, he collects the entire amount of his loss up to the face amount of the policy. If he carries less insurance than needed to comply with the coinsurance clause, he will collect only the percentage of his loss determined by dividing the amount he carried by the amount he should have carried. In this latter case, he will be a coinsurer with the company; that is, he will be forced to bear part of each loss himself.

Illustrations

	Example 1	Example 2	Example 3	Example 4
Value of Property at time of Loss	$100,000	$100,000	$100,000	$100,000
Amount of Insurance Required (80% clause)	80,000	80,000	80,000	80,000
Amount of Insurance Carried	80,000	80,000	40,000	40,000
Loss Due to Fire	20,000	90,000	20,000	90,000
Amount Paid by Insurance Company	20,000	80,000	10,000	40,000

Explanations

Example 1: Insured complied with the coinsurance clause by carrying an amount of insurance equal to 80 percent of the value of the property; thus the Insured receives full settlement of loss.

Example 2: Insured carried enough coverage to comply with the coinsurance clause, but the payment for loss can never exceed the policy limit.

Example 3: Insured carried one-half of the amount of insurance required by the coinsurance clause; thus he receives a settlement of one-half of the loss.

Example 4: Insured carried one-half of the amount of insurance required by the coinsurance clause; since one-half of the loss (½ of $90,000 = $45,000) exceeds the amount of insurance, the settlement is limited to the amount of the policy.

11. Under what conditions does the Coinsurance Clause apply?

Coinsurance of 80 percent or higher is mandatory on school buildings classified as fire-resistive or sprinklered, and on the contents therein. Coinsurance is optional on non-fire-resistive property. On non-fire-resistive buildings and contents, the coinsurance percentage may range from 20 percent to 100 percent as desired, in any multiple of 10.

12. What is meant by an "Agreed Amount Clause"?

This is a provision in a Fire Insurance policy waiving the Coinsurance Clause for a specified period--usually 1 year. The insurance company agrees that the limit of coverage is adequate and in proportion to the full values shown in an approved Statement of Values. If a new Statement of Values is not filed by the Insured at the expiration of the period, coverage reverts automatically to a coinsurance basis.

13. What is Flat Insurance?

Flat Insurance means Fire Insurance written without a coinsurance clause. The Insured selects whatever amount of coverage he wants to purchase, and the company pays losses up to the face amount of the policy, without regard to the proportion of the insurance to the actual value. The rate per $100 of insurance is much higher than the rate with coinsurance, especially in areas with fire protection. It is rarely desirable for a school district to purchase Flat Insurance on buildings in active use as schools, but it may be a suitable basis for insuring vacant or obsolete buildings. On such property, if insurance on a coinsurance basis produces a premium out of proportion to the use value of the structure, consideration may be given to purchasing flat insurance for a relatively small amount to approximate market value, or to cover demolition costs.

14. What are the structural features of a building classified as fire-resistive?

A fire-resistive building is one in which the structural members (including floors and roof) are of masonry or incombustible material throughout. A fire-resistive building is designed to withstand, without collapse, a fire which completely consumes combustible contents, trim, and floor coverings.

15. What are the structural features of a building classified as non-fire-resistive?

A non-fire-resistive building is one which cannot withstand burning out of contents without collapse. This category includes buildings having wood exterior and wood interior framing; buildings with masonry exterior walls and interior wood framing, either of the joisted type or of heavy timbers; buildings having masonry exterior walls and unprotected or insufficiently protected interior metal framing; and buildings having noncombustible exterior walls and interior framing, whose structural members are deficient in fire-resistance.

16. How are Fire Insurance rates determined?

The rating organization used by most insurance companies is the Insurance Services Office, called ISO. This organization publishes rates for individual buildings from rating schedules.

Schools are rated under what is known as the Public and Institutional Schedule, which is divided into three parts; one for fire-resistive construction, one for frame construction, and one for masonry construction.

Each schedule starts with a base rate, which reflects the natural hazards of the community, the quality of fire protection, and the overall experience of the insurance companies. ISO engineers grade each community according to water supply, fire department equipment, alarm system, and personnel.

The final or published rate for a particular building is derived by applying charges and credits to the base rate, reflecting the extent to which the building varies from the standard of ISO. For example, charges may be made for substandard floor openings, combustible roof covering, or hazardous areas such as manual training shops and chemistry laboratories. Credits are applied for certain features such as fire extinguishers and sprinkler systems.

In the fire-resistive schedule the basic rate is much lower, there are fewer charge items, and the charges are lower.

Periodically, the rates for all schools are adjusted by an "experience multiplier," to reflect the overall experience of all companies that belong or subscribe to the ISO.

17. Why should school officials be interested in the makeup of the Fire Insurance rates on their properties?

School officials should analyze insurance expenditures just as they would any other item in the budget. They should know how the

Fire Insurance rates are computed, and whether it is possible to effect a reduction in such rates. The highly technical schedules and rules used in determining fire rates, however, make it likely that the school administrator will need assistance from the school's insurance adviser.

18. What are the suggested steps for reviewing Fire Insurance rates?

a. A request for a copy of the Fire Insurance rate makeup should be sent to the ISO branch serving the area. By use of a special authorization form, commonly known as a Broker of Record form, this function may be delegated to the district's agent, broker, or insurance consultant.

b. Study the charges and credits on the rate makeup sheet.

c. Check the charges and credits against actual physical conditions at the school. The insurance carrier or an engineer from ISO may be called in to assist in this step. This may reveal substandard conditions which can be corrected which may result in a lower rate.

d. Compare the cost of making the recommended changes against the savings in premium.

e. Correct those conditions which will result in a saving to the district or improve safety of occupancy.

f. Ask ISO to revise your district's fire rate to obtain the benefit of those changes which were made.

19. Why should ISO be consulted when construction of a new building is contemplated?

Many of the largest charges in rate making result from substandard construction features of the building. It is far easier to make a change in plans while the building is still on the architect's drawing board than to make a change after the building is completed. The architect should be required to review his plans and specifications with ISO, to make certain that the building on completion will qualify for low Fire Insurance rates.

20. What are the addresses of, and territories covered by, the ISO branch offices?

The Metropolitan Division covers New York City, and Nassau, Putnam, Rockland, Suffolk, and Westchester counties, and is located at

130 William Street, New York, N.Y., 10038. The Syracuse Division covers the balance of the State, and is located at 617 James Street, Syracuse, N.Y., 13203.

21. How do 3-year prepaid Fire Insurance rates compare with the 1-year rate?

The 3-year prepaid rate is 2.7 times the 1-year rate.

22. A district wants $1,000,000 of Fire Insurance coverage--what are the comparative premiums for 1- and 3-year prepaid policies, if the 1-year rate is $.10 per $100?

	1-Year Term	3-Year Term
Total Premium	$1,000	$2,700
Average Annual Cost	1,000	900

Another advantage of term insurance is that the fire rate in effect on the inception date of the policy is guaranteed for the term of the policy. Thus, an increase in the rate would not become effective until the next policy is issued.

23. Is there any way that a school district can purchase Fire Insurance to spread the cost over the term of the coverage?

Yes. Most companies offer a Deferred Premium Payment Plan which can be written for a 3-year period.

24. How does the Deferred Premium Payment Plan differ from prepaid insurance?

The Deferred Premium Payment Plan is a method of distributing premium payments in equal annual installments over a period of 3 years. The annual rate per $100 of insurance for the 3-year plan is calculated by multiplying the 3-year prepaid rate by 35 percent.

Illustration

Policy Limit:	$1,000,000
Annual Rate:	$.10 per $100 of insurance
3-Year Prepaid Rate:	$.27 per $100 of insurance
3-Year Premium:	$2,700

Annual Rate-- Deferred Premium Payment Plan:	35% of $.27, or $.094
Each Annual Installment:	$940
Total Cost--3 Years:	$2,820

This illustration shows that the Insured pays $120 more than the cost of a 3-year prepaid policy, which would cost $2,700 at inception, for the privilege of paying the premium in equal amounts annually.

25. What is the standard form used to write Fire Insurance?

General Property Form 10 was designed by the New York Fire Insurance Rating Organization (now ISO) to replace a number of forms designed for specific kinds of risks such as schools, churches, and hotels.

26. What items are excluded from coverage under the Standard Fire Insurance policy with General Property Form 10 attached?

Land values and lawns; cost of excavation, grading, and filling; foundations below the undersurface of the lowest basement floor, or where there is no basement below the surface of the ground; pipes, flues, wiring, and drains which are underground; portions of walls, roadways, and other paved surfaces outside and over 25 feet from buildings. Also excluded are automobiles, aircraft, and water craft while afloat.

In building appraisals, the values of the types of property mentioned above are usually deducted under the heading Insurance Exclusions. The value remaining after deduction of these items is ordinarily labelled Net Insurable Value.

27. Does the Standard Fire policy cover valuable papers and records?

Yes, but only for the value of the paper or cards on which the records are kept. The cost to reconstruct records destroyed by fire is <u>not</u> covered.

28. Does the Standard Fire policy cover outbuildings such as storage sheds, and outdoor property such as fencing, flagpoles, and playground apparatus?

Only if such property is specifically identified and included in the policy or Statement of Values for Blanket coverage. The

insurance adviser should review these values to determine whether coverage should be indicated in the district's policy.

29. Are the architects' fees included in the insurable value for buildings?

This is optional, but including them is recommended by many authorities. Most professional appraisals include this value, which can amount to as much as 8 percent of the total value. If you desire to include architects' fees, make certain that the insurance company understands that this value is to be insured.

30. What is meant by an Extended Coverage Endorsement to a Fire Insurance policy?

Extended Coverage Endorsements add insurance on a group of additional perils for a single additional premium charge. Extended Coverage Endorsement No. 4, which is the most commonly used, covers losses caused by wind, hail, explosion, riot, riot attending a strike, civil commotion, aircraft, vehicles, and smoke. A deductible of $100 is mandatory.

31. What is Vandalism and Malicious Mischief Insurance?

This is insurance against willful injury to, or destruction of, either real or personal property, by a person other than the Insured. Vandalism and Malicious Mischief can be added by endorsement to a Fire policy, but only if Extended Coverage Endorsement No. 4 is also attached. The endorsement can apply to damage to buildings only, or to damage to contents only, but it is best to have coverage apply to both buildings and contents.

One important restriction in the Vandalism and Malicious Mischief coverage is the exclusion of coverage on glass, except structural glass blocks.

A mandatory deductible of $100 applies to all claims.

32. What is "All Risks" Fire Insurance?

Some companies offer a form, often called "Special Form," which provides insurance on buildings against All Risks of physical loss or damage, except as specifically excluded in the form. The exclusions would ordinarily include gradual deterioration,

wear and tear, flood, earthquake, mechanical breakdown, and the like. Furthermore, unusual types of loss are ordinarily made subject to a deductible of at least $250. While the name is a little misleading, the coverage is broader than Fire, Extended Coverage, and Vandalism.

33. What is the standard deductible on Fire Insurance?

The standard deductible of $100 applies to Fire, Extended Coverage, and Vandalism and Malicious Mischief coverages.

34. What other deductibles may be selected to reduce cost?

The ISO manual permits use of deductibles of:

$10,000
25,000
50,000
75,000

The ISO manual also provides for use of a Disappearing Deductible Clause--Form 760. This form states a dollar amount of deductible which reduces to disappear when the amount of loss reaches a stated higher amount. These are:

Deductible	Factor
$500 reducing to disappear at $5,000	(111%)
1,000 reducing to disappear at 10,000	(111%)
3,000 reducing to disappear at 15,000	(125%)
5,000 reducing to disappear at 25,000	(125%)

35. How does the Disappearing Deductible work?

With the $500 deductible, any loss under $500 is not covered. Losses between $500 and $5,000 are paid, using the multiplier of 111 percent to determine the settlement. The payments would be:

Loss	Deductible	Remainder	Multiplier	Payment	Actual Deductible
$1,000	$500	$ 500	111%	$ 555	$445
3,000	500	2,500	111%	2,775	225
4,000	500	3,500	111%	3,885	115
5,000	500	4,500	111%	4,995	5

Losses over $5,000 are paid in full.

36. What is Extra Expense Insurance?

This is a form of insurance which pays the Insured for necessary extra expenses incurred after damage to the Insured's premises or contents, in order to continue school operations. When a school building is seriously damaged by fire, explosion, or wind, it may be necessary to spend considerable amounts to rent temporary facilities, and to provide temporary lighting, sanitary facilities, and transportation. Even if school can be continued by doubling sessions at other school locations, additional costs would probably be incurred. Extra Expense Insurance pays these additional expenses.

Extra Expense Insurance can be written to pay for losses resulting from fire and lightning only, or it can be written to include damage from the perils in Extended Coverage Endorsement No. 4, and the Vandalism and Malicious Mischief Endorsement. The rules require that the period of indemnity be at least 3 months, and not more than 40 percent of the amount of the insurance can be used in any 1 month. Any insurance not used in any month can be carried over to later periods.

37. Should all school insurance programs include Extra Expense Insurance?

No. The need for the coverage should be individually evaluated by each district. In general, districts which are completely dependent on one building or on a few buildings have a greater need for this type of coverage than districts which have many buildings. Also, the risk is greater for non-fire-resistive structures than for fire-resistive schools.

38. How can the appropriate amount of Extra Expense Insurance be calculated?

There is no generally accepted formula for estimating the amount of Extra Expense coverage which should be selected for any particular insured. The agent or insurance adviser should attempt to identify the additional costs which would be incurred to carry on school operations after severe damage to each school building. The limits selected may be varied by location to reflect differences in the individual exposures. Obviously, the extra expense to find substitute quarters for a high school with 1,000 pupils would be greater than the expenses for an elementary school with 500 pupils. Garages and other nonclassroom structures should not be overlooked in this analysis.

Since the largest expense is normally incurred in the first month, the limits selected should be large enough to adequately indemnify the district. Remember, only 40 percent of the total of coverage can be used in any 1 month. If $20,000 is needed in the first 30 days after a severe fire for the extra expenses to take care of the pupils at some other location, the insurance limit must be at least $50,000, since only 40 percent can be used in any 1 month.

39. Is insurance available for earthquake damage?

Yes. A standard form of Earthquake Damage Insurance is available from most fire insurance companies. While the State of New York is not a major earthquake zone, earth tremors have been recorded in a number of locations, especially in the St. Lawrence River area. Since even a moderate quake can severely damage a masonry or fire-resistive structure, this may be considered a catastrophe risk.

40. What is the difference between Specific Insurance and Blanket Insurance?

Specific Insurance is a policy which provides a definite limit of coverage on each building, and on the contents of each building listed in the policy. The limit shown for each item is the maximum amount which the company will pay for damage to that property. Specific Insurance is usually written with 80, 90, or 100 percent coinsurance.

Blanket Insurance is a policy which provides a single amount of insurance applying to both buildings and contents, or to buildings and contents at more than one location. The entire limit of the Blanket Insurance policy may be applied to each loss. Blanket Insurance policies must be written with not less than 90 percent coinsurance, with 100 percent coinsurance available if desired.

ISO will promulgate, upon application, an average rate for Blanket Insurance. The Insured must sign a Statement of Values form, showing the 100 percent value of all of the buildings and contents which are to be covered, as a basis for the calculation of the average blanket rate.

41. What is the advantage of writing Blanket Insurance?

The major advantage of Blanket Insurance arises when there are several locations covered by the policy. Since the full blanket

limit can be used on a loss at any of the locations, the Insured has in effect 100 percent coverage, while buying a limit equal to only 90 percent of the actual values. Secondly, if contents are changed from one insured location to another, the policy does not have to be adjusted. The policy must be amended, however, if additional premises are acquired or constructed.

42. Is Blanket Coverage more expensive?

Generally yes, since the rules require that the Blanket limit be equal to at least 90 percent of the appraised values, as compared with 80 percent for scheduled coverage. This means that additional coverage equal to 10 percent of total value must be purchased.

In addition, the rate credit of 5 percent of the 80 percent coinsurance rate which is normally allowed when purchasing 90 percent coinsurance coverage, is not allowed when purchasing Blanket Insurance.

43. Why is it important to have the written portions of all Fire Insurance policies covering the same risk read exactly alike?

Concurrency of separate policies is essential to recovery of the total amount of any loss. An example will serve to make this clear. Suppose that a school district has four policies on the same building, each written for $20,000. Three of these policies contain an Extended Coverage Endorsement. but the fourth does not. A windstorm causes damage amounting to $2,000. Each company is liable for only the proportion of the loss that the amount of Fire Insurance it has written bears to the total amount of Fire Insurance in force. In this example, each company is responsible for one-quarter of any loss. However, one company has no responsibility for Extended Coverage losses, since the endorsement was omitted from its policy. The Insured would recover $500 (one-quarter of the loss) from each of the three companies which wrote Extended Coverage, and nothing from the fourth company. The total recovery is $1,500, and the Insured sustains $500 uninsured loss.

The failure to have identical coverage in all of the policies is known as a Non-Concurrency.

44. What can a school district do to avoid Non-Concurrency in its Fire Insurance program?

Where the Fire Insurance is divided between two or more companies, the Broker of Record or the insurance adviser should be required to check all of the policies to determine that they are identical in coverage.

45. What is Builders' Risk Insurance?

Builders' Risk Insurance is coverage designed to protect the owner's interest in a building during the course of construction. Builders' Risk policies can be issued to cover damage by fire and lightning, Extended Coverage perils, Vandalism and Malicious Mischief, or even "All Risks."

It is permissible to extend, without additional premium charge, coverage on the interest of contractors and subcontractors. Usually it is desirable to include such interests under a Loss Payable Clause, which protects their interests during the course of construction, but leaves the school district, as the only Named Insured, in control of the policy and the adjustment of claims.

46. At what stage in planning a new building should the insurance requirements be established?

It is important that the school district's insurance agent or adviser assist the architect in drawing up an insurance specification before the specifications are released to prospective bidders. The insurance specification should state which party will purchase the Builders' Risk coverage, the form to be used, the perils to be covered, and the amount of the deductible. The specifications should also indicate what coverages must be carried by the contractor during construction.

47. What types of Builders' Risk Insurance are available, and what are the chief characteristics of each?

a. Completed Value Form.

The policy is written specifying a Provisional Amount of insurance equal to 100 percent of the value at time of completion. This does not mean the full amount of the bond issue, since the Insurance Exclusions described in Question 26 should be deducted to arrive at the Insurable Value. The premium, however, is figured using 55 percent of the rate. This is intended to represent an averaging of the exposure, which is nil at the inception, and 100 percent of the value at termination of the policy.

The insurance automatically increases as the building progresses. No reports are required, nor is any change in the policy necessary, unless there is a change in the estimated completion value of the building. Provided the completion value has been accurately stated, losses will be paid in full at any point during the period of construction.

b. Reporting Form.

The policy is written specifying a Provisional Amount of insurance equal to 100 percent of the value at time of completion.

The Insured must report the value of the building as of a specified date each month to the insurance company. Premiums are billed on the basis of the values reported. If the Insured fails to file monthly reports, the policy will cover not more than the value in the last report actually filed. This provision places a severe burden on the Insured to make accurate and timely value reports.

c. Building in Process.

The Insured specifies the amount of coverage he desires, increasing the limit from time to time, to parallel the various stages of construction. The Insured is required to maintain coverage equal to 80 percent of the value of the building. If, at the time of loss, the amount of insurance is less than 80 percent of the value of the building as it existed at the time of the loss, the Insured will suffer a coinsurance penalty. Actually, under this arrangement the Insured is either overinsured or underinsured at all times. This arrangement is rarely used on school construction.

48. Which of the Builders' Risk forms is preferred?

The Completed Value form is recommended. So long as the Insured can give the insurance company an accurate estimate of the value at completion, adequate protection is afforded. No interim reports or endorsements are required.

49. Under Builders' Risk forms, can the Insured occupy or use the premises?

The Builders' Risk forms state that the premises shall not be occupied by the Insured without obtaining the consent of the

insurance company, except that machinery may be set up and operated solely for testing purposes.

Builders' Risk policies may be cancelled pro rata upon completion and occupancy. At that point the building and its contents should be added to the district's policy which covers existing buildings.

50. Do Builders' Risk forms cover theft of building materials from the site?

No. In fact, insurance companies are extremely adverse to providing such coverage. Protection and surveillance of the property are the best solution to this problem.

51. Can Builders' Risk policies be written for terms of more than 1 year?

Yes. Premium savings may be achieved on large projects which are likely to require more than 1 year of construction. The policy may be issued either prepaid or under the Deferred Premium Payment Plan. The multipliers are 1.85 and 2.7 of the annual rate, for 2 and 3-year policies, respectively. In either case, the policy may be cancelled pro rata upon completion.

B. PUBLIC AND INSTITUTIONAL PROPERTY PLAN

52. What is the Public and Institutional Property (PIP) Plan?

This is an optional plan for writing fire and allied perils insurance on buildings and contents for "institutional" risks such as churches and schools. It can provide coverage very similar to the Special Institutional Property fire and related perils forms of the Special Multi-Peril (SMP) Policy, at favorable rates.

53. Is it used to any significant extent for school districts?

No. It was widely used before introduction of the SMP type policy, but was essentially replaced by the latter. The SMP type policy affords generally lower overall costs for coverages it may include, than can be achieved using the PIP in combination with separate policies for the same coverages.

C. BOILER AND MACHINERY INSURANCE

54. Why is Boiler and Machinery Insurance important?

Boilers and other objects containing steam or liquids under pressure can explode, causing damage of terrifying proportions. More important is the fact that boiler explosion is one of the most serious threats to life safety in a school building. Therefore, the safe maintenance and operation of the equipment is essential. Boiler insurance companies make internal and external inspections of insured equipment, in addition to providing insurance protection.

55. Do the conditions of a Boiler and Machinery policy require the insurance company to make inspections of insured objects?

While the insurance company does not agree to provide any specific amount of inspection service, the boiler insurance companies do in fact make inspections at regular intervals to detect unsafe conditions in the equipment, and to test safety devices. The New York State Labor Law requires, however, that all boilers be inspected annually. The inspections made by licensed boiler inspectors employed by insurance companies comply with this requirement.

56. What benefits are derived by the Insured from company inspection service?

In addition to satisfying the annual inspection requirement of the New York State Labor Law, the boiler inspector will make recommendations to the Insured for correction of any unsafe conditions which he observes. In this way, the school district receives professional advice at regular intervals, designed to prevent accidents. Insurance companies spend a greater portion of each Boiler Insurance premium dollar on inspection and loss prevention services than is spent for such services for any other type of insurance.

57. What types of equipment may be covered by Boiler and Machinery insurance?

In addition to boilers, the policy may cover almost any kind of vessel or machine, including hot water storage tanks, water pressure tanks, air compressor tanks, refrigerator units, motors, air conditioning units, compressors, and electrical panels. The decision as to which objects to cover should be made after careful analysis of the loss possibilities involved and information as to the annual premium cost.

58. Is this kind of insurance recommended for school districts whose buildings are equipped with low pressure boilers?

Yes. Despite safety devices installed on low pressure boilers, there is always the possibility that these devices may fail to operate. The terrible accident in the Telephone Company Building in New York City in the fall of 1962, which caused the death of many persons, plus vast property damage, indicates what can happen when a low pressure boiler explodes.

59. What insurance agreements are covered in the basic Boiler and Machinery Insurance Policy?

The basic Boiler and Machinery Policy provides protection and settles claims in the following order, up to the limits of the policy:

a. Damage to the Insured's own property, both building and contents, including damage to the boiler or machine itself.

b. The reasonable cost of making temporary repairs or of expediting the repair of the Insured's property, subject to a maximum limit of $1,000.

c. The Insured's liability for damage to the property of others.

d. The Insured's liability for bodily injury to persons other than employees. The company also agrees to pay for immediate medical and surgical relief to others at the time of the accident. This section is optional, and is excess over other Bodily Injury Liability insurance, such as General Liability.

e. Pays the cost of defending the Insured in legal actions, all interest accruing after entry of judgment, all premiums on appeal bonds, and all premiums on bonds to release attachments for an amount not in excess of applicable limits.

60. What is the difference between Limited and Broad Boiler coverage?

a. Limited Coverage

Insures against a sudden and accidental tearing asunder of the boiler caused by the pressure of steam or water therein.

b. Broad Coverage

Insures against sudden and accidental breakdown causing physical damage to the object, necessitating repair or replacement.

Both Limited and Broad coverage exclude losses resulting from deterioration, corrosion, wear and tear, leakage at valves and fittings, and the functioning of any safety or protective device.

61. What is meant by an "Explosion Exclusion" endorsement to a Boiler Insurance policy?

Some policies that provide Extended Coverage exclude protection if more specific insurance is afforded under another policy. The Boiler policy provides more specific coverage for explosion of other than steam boilers or pipes, turbines or engines. To take advantage of the explosion coverage in the Extended Coverage endorsement, some insurers feel it necessary that the explosion hazard in the Boiler policy be deleted. This is accomplished by adding an "Explosion Exclusion" endorsement.

This arrangement results in a nominal reduction in the Boiler premium, and permits selection of lower limits for locations without steam boilers or other steam objects. The full amount of the Extended Coverage insurance will then apply.

62. Why is it desirable for districts which do not have steam boilers, turbines, or engines to buy Boiler insurance?

a. Most districts have steam objects other than steam boilers, such as steam jennies in the bus garage and steamtables in the cafeterias.

b. Boiler insurance with Broad coverage insures losses other than those due to explosion, such as cracking of boiler sections or burning of tubes.

c. The Boiler insurance company will provide inspection and loss prevention services.

63. If such a district decides not to carry Boiler Insurance, how can it satisfy the requirements of the Labor Law for annual inspection of its boilers?

New York State Labor Department inspectors will inspect the boilers for a fee.

64. On what basis are property losses paid under the Boiler Policy?

The Standard Policy pays for the Actual Cash Value of the property of the Insured damaged in an accident.

65. Is Boiler and Machinery Insurance ever written with Replacement Cost coverage?

Yes. For an additional premium charge of 20 percent of the regular premium, a Repair and Replacement Cost Endorsement can be attached. This form provides for payment of losses without deduction of depreciation--new for old.

66. As used in a Boiler and Machinery Insurance policy, what is the difference between a Boiler and a Furnace?

a. A Boiler is that part of a heating plant in which water is heated or converted into steam.

b. A Furnace is that part of a heating plant in which fuel is converted into heat. The tubes or flues which transmit heat through a boiler are considered as part of the furnace.

67. Does Boiler Insurance protect the Insured when an explosion occurs as a result of an accumulation of gases within the furnace?

Furnace Explosion Insurance is not provided by the basic policy, but may be added to either Limited or Broad Coverage for an additional premium. This is generally not recommended where Extended Coverage is included in the Fire policy, however, since Extended Coverage insures such losses.

68. Does an Extended Coverage Endorsement to a Fire Insurance policy cover losses caused by other types of explosions?

Yes, such an endorsement covers all types of explosions, with the exception of explosions occurring in steam boilers, steampipes, turbines, and engines.

69. Would the inclusion of Furnace Explosion coverage in a Boiler and Machinery Policy cover losses from an explosion of accumulated gases which have escaped from the furnace?

No. A Furnace Explosion is defined as a sudden and accidental explosion of gas within the furnace of an insured object or within the gas passages therefrom to the atmosphere.

70. Are hot air furnaces insurable under a Boiler and Machinery policy?

No. The policy covers only those heating units connected with boilers having water under pressure. If such a furnace explodes, an Extended Coverage Endorsement to a Fire Insurance policy will provide coverage.

71. What is a Reserve Object?

This is a boiler or other object held in reserve for emergency use, the operation of which was limited to 90 days or less in the 3 previous years. A rate reduction of 40 percent applies to Reserve Objects. No reduction is allowed on cast iron boilers or low pressure steel boilers, however.

72. What does the Limit per Accident condition of a Boiler and Machinery Insurance policy mean?

Boiler and Machinery Insurance policies stipulate that the company's liability for loss from any one accident shall not exceed the amount specified as the Limit per Accident in the schedule applicable to the object to which the accident occurred.

For this purpose, the term "one accident" includes all resultant or concomitant accidents whether to one or more objects. If a boiler explosion causes a second boiler to explode, the two occurrences are considered as one accident.

73. Must the same Limit per Accident apply at all locations?

No. All objects at one location must be insured for the same limit, but the Limit per Accident can be varied by location to reflect the value of the premises and contents, and the susceptibility of the premises to damage.

74. Is it possible to pay Boiler and Machinery Insurance premiums in installments?

Yes. The premium for a policy written for a term of 3 years (the normal term of a Boiler and Machinery Policy) may be in three installments, as follows:

40 percent on delivery of the policy,
30 percent on the first anniversary date,
30 percent on the second anniversary date.

The premium for installment payments is about 5 percent higher than for a prepaid policy.

75. What is Automatic Coverage?

A provision in the Boiler policy provides coverage up to a maximum of 90 days on newly installed objects at existing locations, and on objects at newly acquired locations, provided they are of the same type or types as those already covered by the policy.

76. What is the Blanket Group Plan?

This is an optional plan under which kinds of Boiler and Machinery objects are insured under group descriptions rather than being specifically identified in the policy.

The initial premium is based on the objects of the kind described connected for use on the effective date. Annually the premium is adjusted by the company to reflect any changes in the objects.

The Blanket Group Plan is now available to any risk, regardless of the number or type of objects insured. It has the advantage of being fully automatic on equipment changes. However, great care must be taken in the wording of the Groups to provide proper coverage. Objects not covered by existing Group descriptions are <u>not</u> automatically covered.

77. Is it desirable to include Bodily Injury Liability Insurance in a Boiler Policy?

If the district is carrying General Liability coverage with limits sufficient to cover a serious explosion, it would not be necessary to include Bodily Injury Liability in the Boiler Policy. The Bodily Injury coverage in the Boiler Policy is excess over General Liability policies, and only the portion of accident limit remaining after payment of damage to the Insured's property, and property damage to others, can be used for Bodily Injury Liability claims. Probably the best course is to purchase General Liability limits sufficient to cover serious disasters, and to rely on the Boiler Insurance for protection on damage to the Insured's own property.

78. What is Use and Occupancy Insurance?

This is an indirect coverage which can be added to a Boiler policy to cover loss due to total or partial prevention of use, and expenses incurred to reduce or avert such prevention, caused by an accident to an object insured in the Direct Damage portion of the policy. A form is available which permits the

Insured to select the amount to be paid for each day of total prevention of occupancy after an accident. This would provide funds to carry on activities at another location while repairs are being made. In this way, it resembles Extra Expense Insurance described in the Fire section of this manual.

D. GLASS INSURANCE

79. What basic insuring agreements are contained in a Glass Insurance policy?

The insurance company agrees to pay for:

a. Damage to the glass described in the policy caused by breakage of the glass or by chemicals accidentally or maliciously applied.

b. Repairing or replacing frames immediately encasing and contiguous to such glass when necessary because of damage.

c. Installing temporary plates in or boarding up openings containing such glass when necessary because of unavoidable delay in repairing or replacing such damaged glass.

d. Removing or replacing any obstructions, when necessary, in replacing such damaged glass.

80. Is Glass Insurance usually recommended for school districts?

No. It is generally more practical for school districts to include provision for damage to ordinary glass in the operation and maintenance budget. It is sometimes desirable, however, to insure certain plates of glass of unusual size or value.

81. Isn't it reasonable for a district with a very high incidence of intentional glass breakage to carry Glass Insurance?

Yes, it is reasonable, but any district having a bad record for this kind of loss will not find insurance companies interested in providing the coverage, except at very high cost. Usually it will be cheaper to replace glass without insurance. In such cases, intensive loss prevention action is called for.

82. Doesn't a Vandalism and Malicious Mischief Endorsement to a Fire Insurance policy cover glass breakage?

No. Under this endorsement, the company is not liable for any loss to glass except glass building blocks.

83. Does a district have any protection against glass breakage without a policy specifically covering glass?

Yes. The Standard Fire Insurance policy covers glass broken as a result of fire or lightning. If Extended Coverage Endorsement No. 4 is added to the Fire Insurance policy, protection is afforded for glass breakage resulting from windstorm, explosion, vehicles and aircraft, and riot and civil commotion. "All Risk" forms generally provide broader coverage, but the amounts are quite modest: for example, not more than $50 per pane and $250 per occurrence. Deductibles further limit the protection under both types of forms. The SMP Policy forms provide similar protection. Boiler and Machinery Insurance includes coverage for glass broken as a result of a boiler explosion.

E. INLAND MARINE INSURANCE

84. What is Inland Marine Insurance?

Ocean Marine Insurance was originally designed to cover property being transported on the high seas. Later, a need arose to protect property which had no fixed location while otherwise in transit. This coverage became known as Inland Marine Insurance. As used today, the term Inland Marine Insurance applies to policies which extend coverage on specified articles wherever located.

85. Why is the term "Floater" used in connection with policies written under Inland Marine Insurance?

This term is used since most of the so-called Floater policies cover insured property wherever it may be, rather than at specified locations.

86. Why should school districts be interested in Inland Marine Insurance?

Many districts own expensive items of equipment which are moved from one location to another in connection with activities involving visual aid programs, sports teams, and musical groups. The fact that these items are susceptible to loss and are not readily covered for all contingencies under building contents or other types of coverage, indicates a need for special coverage.

87. What types of Inland Marine policies are of general interest to school districts?

a. Camera Floater - covers cameras, projection machines, films, movable sound equipment, and other audio-visual aids items.

b. Musical Instruments Floater - covers musical instruments and articles of equipment pertaining thereto, including sheet music.

c. Athletic Equipment Floater - covers all kinds of movable athletic equipment, including, if desired, athletic uniforms and band uniforms.

d. Scientific Apparatus Floater - covers microscopes, telescopes, and other valuable scientific equipment.

e. Exhibition Floater - covers valuable articles, including fine arts and objects of historical value, which belong to others but are loaned to the Insured for exhibition.

f. Mobile Equipment Floater - covers farm-type tractors, mowing machines, including incidental attachments such as snow plows, etc.

g. Parcel Post Policy - covers property during shipment by parcel post, such as films sent between school districts and film supply houses.

88. What protection is afforded a school district by the various types of floater policies?

It is difficult to generalize about the coverage, since many Inland Marine policies can be tailored by the insurance company to meet the individual requirements of the Insured. Camera Floaters and Musical Instrument Floaters are commonly written to cover "all risks of physical loss or damage," with minimum exclusions such as gradual deterioration, inherent vice, and wear and tear. On athletic equipment and uniforms it is more common to carry "named perils" policies, which insure against

damage by fire, wind, explosion, transportation, theft, and other perils selected by the Insured. The insuring agreement and exclusions in all Floater policies should be carefully reviewed, to make certain that the desired coverage is provided.

89. How is the value of insured articles indicated in Inland Marine Policies?

In most of the Inland Marine Floaters, such as the Camera Floater, Musical Instruments Floater, Exhibition Floater, Scientific Apparatus Floater, and Farm Equipment Floater, the items to be insured must be listed, with a specific amount of coverage applied to each article. The amount would normally be the present Actual Cash Value of the item. In some forms, such as the Camera and the Musical Instruments Floaters, a Blanket Item can be included in the schedule, to provide a single amount of insurance on low value miscellaneous articles. This Blanket Item is subject to 100 percent coinsurance, which means that it must be equal in amount to the total value of all such property, in order to avoid a coinsurance penalty in the event of loss.

90. Are Inland Marine Floaters usually written on a Replacement Cost basis?

No. Most floaters are written on an Actual Cash Value basis. In settling claims, the carrier will deduct from the cost of replacement an amount of depreciation to allow for wear and obsolescence. Since the company will pay for only the depreciated value of items insured under Floater policies, the schedules of insured property should be reviewed annually to avoid overinsurance, and waste of premium dollars.

91. Do Inland Marine policies provide Automatic Coverage on newly acquired property?

Most Floater policies have limited automatic coverage on acquisition of additional property similar to that covered originally. However, most policies require that the Insured give notice to the company within 30 days from date acquired, and pay additional premium to add the items to the schedule. It is therefore very important that all newly acquired property be reported to the carrier within the period of time stated in the policy, so that there will be no lapse of coverage.

92. Does this type of insurance have any bearing on other forms of insurance carried by the district?

Yes. It should be noted that Floater policies ordinarily cover loss by fire, lightning, windstorm, and theft. When a district determines the amount of insurance on their Fire and Extended Coverage on the contents of a building, care should be taken to omit the value of the property insured under one or another of the Floater policies, to avoid duplication of cost.

If the district has floaters which include Theft Insurance, they may overlap Mercantile Open Stock Burglary-Theft Insurance. Since Open Stock Burglary and Theft is normally written for a relatively small percentage of the total value of all personal property in the premises, the existence of floater forms usually would not affect the limit of coverage to be written.

93. Should equipment such as farm-type tractors, power mowers, and snow plows be covered under Inland Marine forms, or under the Auto Physical Damage Policy?

The Mobile Equipment Floater makes "All Risks" coverage available at moderate cost. Similar coverage is available under the Automobile form by writing both Comprehensive and Collision, although the inclusion of Collision, even with a deductible, is likely to make the cost greater. The district should secure quotations under both the Automobile and Inland Marine forms in order to take advantage of the lowest cost.

F. CRIME INSURANCE

94. What do the terms, such as "burglary" and "robbery," as used in Crime Insurance policies mean?

Crime Insurance policies ordinarily contain a definition of the perils which are insured in the policy, such as Burglary, Robbery and Theft. This is necessary because the legal definition of these terms varies from one state to another, and the carriers want to write a policy which provides the same coverage in all territories. The abbreviated definitions in the following chart are the ones most commonly encountered:

BURGLARY, ROBBERY AND THEFT FORMS

Insurance Term	Definition	Examples
OPEN STOCK BURGLARY	The felonious taking of merchandise, furniture, fixtures, and equipment from premises of the Insured, when closed for business, after gaining entrance thereto by the use of force as indicated by visible evidence at the place of entry.	A burglar smashes a window, enters a school, and steals a typewriter after school has closed for the day.
SAFE BURGLARY	The felonious taking of money, securities or other property from within a safe or vault, and in the process leaving visible evidence on the outside of such safe or vault that force was used to gain entrance thereto.	A burglar enters a school, smashes the safe with a sledge hammer, and makes off with the contents. Coverage is not afforded if he opens the safe with the combination. There need not be forcible entry into the premises.
ROBBERY Inside and Outside	The felonious taking of money, securities or other property from a messenger or other responsible school employee within the premises or elsewhere by the use of violence or the threat of violence.	A robber forces the principal, through violence or the threat of violence, to open the school safe, then removes the contents, or, a robber accosts the school district's messenger on the street, and through violence or the threat of violence, forces him to turn over receipts from the school cafeteria.
THEFT	The felonious taking of money, securities or other property, whether in a robbery or under such circumstances that the owner has no knowledge of the occurrence of the loss at the time of the loss.	A thief steals $50 from the cash register in the cafeteria, or, the district's messenger is involved in an accident on his way to the bank. In the resulting confusion a thief takes the bag containing school funds.
"ALL RISKS" or BROAD FORM MONEY and SECURITIES	All risks of destruction, disappearance, or wrongful abstraction of money or securities.	Money is burned in a fire, or, cash disappears from a safe or office, or, a thief takes cash from the cafeteria.

95. What kind of policy protects a school district against burglary of property other than money and securities?

A Mercantile Open Stock Burglary Policy provides such protection.

96. What is meant by Open Stock?

Merchandise, furniture, fixtures and equipment, and supplies for which safe or vault protection is not required.

97. What are the limitations of an Open Stock Burglary Policy?

a. Money and securities are not covered.

b. Coverage applies only during hours when the premises are closed.

c. There must be visible evidence of forcible entry into the premises.

d. Coverage is not afforded on property away from premises.

98. What is an example of visible evidence of forcible entry?

When a burglar who steals a typewriter gains entrance to the school by smashing a door lock, visible evidence of forcible entry is present, and the policy covers the loss as well as repairs to the damaged door lock.

99. Is damage to property resulting from a burglary covered under this type of policy?

Yes. All damage (except by fire) to merchandise, furniture, equipment and fixtures in the premises, and damage to the premises (except to plate glass) is covered.

100. Is there a coinsurance requirement in the Mercantile Open Stock Policy?

Yes. School districts are classified in what is known as Trade Group 4, and a Coinsurance Limit of $2,000 is assigned to that group. This means that as long as a school district carries at least $2,000 coverage on each location insured, the company will pay any loss in full, up to the face amount

of the policy. If the value of the property at any location is too small to carry a $2,000 limit, the district can comply with the coinsurance requirement by carrying not less than an agreed percentage of the value. This percentage varies from 40 percent to 60 percent, depending on the territory in which the school is located.

101. Is it possible to secure Theft coverage on school property under the Mercantile Open Stock form?

Yes. It is possible to attach a Theft Endorsement. In most cases, this increases the cost by 75 percent. The Theft Endorsement extends coverage to apply 24 hours a day, since it eliminates the requirement that there be forcible entry into the premises when they are closed. Most companies, however, include a deductible of $50 or more, which applies to all losses where there is no evidence of forcible entry.

102. Is Mercantile Open Stock Insurance the only kind of coverage which applies to school equipment?

No. Many Inland Marine floaters, such as Musical Instruments and Camera Floaters, include Theft and Burglary protection on the items which they insure.

103. Does the Mercantile Open Stock Burglary Policy cover property owned by employees or students?

No. Personal effects not owned by the district are excluded.

104. What kind of protection does a Mercantile Safe Burglary Policy offer?

It pays for loss of money, and securities, and other property taken from within the safe or vault. It also covers damage done to the safe, other property, or the premises, as a result of the burglary.

105. Are there limitations in a Mercantile Safe Burglary Policy?

Yes. Under the terms of such a policy there must be visible marks on the exterior portion of the safe or vault, indicating forced entry. There does not, however, have to be forced entry into the premises.

106. Does the safe or vault have to be burglarized within the premises?

No. This policy covers the loss, even though the safe or vault is removed from the premises before being burglarized.

107. What kind of coverage does Interior Robbery Insurance provide?

It pays for loss of money, securities, and other property caused by:

a. Robbery or attempt thereat, committed within the Insured's premises;

b. Kidnapping, which means stealing of such property from within the premises after compelling an employee, while outside the premises, to admit a person to the premises.

108. What kind of coverage does Messenger Robbery Insurance provide?

It pays for loss of money, securities, and other property caused by robbery, or attempt thereat, from a messenger outside the insured premises.

109. Are there important limitations to the two types of robbery policies mentioned above?

Yes. These robbery forms afford no coverage unless violence or threat of violence is a contributing factor. Also, the Interior Robbery policy is limited to losses of property taken from a custodian while on duty, so that property stolen from an employee while his attention was diverted, or while he was temporarily away from the property, would not be insured.

110. What kind of policy should a school district consider if it is felt that the Safe Burglary and Interior and Messenger Robbery policies do not provide adequate protection against many possible losses of money and securities?

A Broad Form Money and Securities Policy offers very broad coverage on this type of property.

111. What kinds of protection are offered under a Broad Form Money and Securities Policy?

The Broad Form Money and Securities Policy provides better coverage than a combination of Safe Burglary, Robbery, and Theft policies. It covers:

a. Losses Inside the Premises:

1. Loss of money and securities by destruction, disappearance, or wrongful abstraction.

2. Loss of property other than money and securities by safe burglary and by robbery.

3. Damage to the premises caused by robbery or safe burglary.

b. Losses Away from the Premises:

1. Loss of money and securities by destruction, disappearance, or wrongful abstraction while being conveyed by messenger.

2. Loss of property other than money and securities by robbery, while being conveyed by a messenger.

3. Loss of money and securities by theft, while in the living quarters in the home of the messenger.

112. Does the Broad Form Money and Securities Policy cover the loss of money and checks which have been placed in the night depository of a bank?

Yes. The basic policy extends coverage to apply within any banking premises.

113. Does a Broad Form Money and Securities Policy cover the loss of tax money which may be stolen from the school district Tax Collector's home, in which he has an office for tax collection purposes?

The Tax Collector's home can, and should, be included in the policy as one of the insured locations. There would be a separate premium charge for each location, and the Tax Collector would also be charged for as a messenger, to cover the exposure between his home and the bank. To reduce the cost, the coverage on the Tax Collector could be limited in the policy to apply only during the period of tax collection. The limit on the Tax Collector should be adequate to cover the peak amount of cash in his possession at any one time.

114. What are some of the other losses which would be covered by a Broad Form Money and Securities Policy?

a. Loss of money and securities by fire. This is the only form providing Fire Insurance on money.

b. Loss of money and securities from an unlocked safe.

c. Money stolen from the cash register in the cafeteria.

d. Mysterious disappearance of money or securities from a safe, or any other portion of the premises, or while being conveyed by a messenger.

115. What is meant by the Discovery Period in a Broad Form Money and Securities Policy?

Inasmuch as many losses covered under this form may not be discovered at once, the policy provides that losses will be paid if they occur during the policy period, and are discovered, and reported to the company within one year after expiration of the policy. While this does afford a period after expiration to report claims, it also acts as a cutoff of the insurance company's liability, since losses will not be paid unless reported within the discovery period.

116. Do any of the Burglary and Robbery policies mentioned in this chapter cover losses due to dishonesty of school district employees?

Safe Burglary insurance covers losses where an employee forces open the safe, but other Burglary and Robbery forms normally exclude losses caused by employees. Theft losses caused by acts of employees are covered by Fidelity Bonds and Public School Systems Blanket Bonds.

117. What factors affect the rates on Broad Form Money and Securities insurance?

The premium for the on premises coverage would depend on the number of locations, the limit of the policy (which can be varied by location), the type of safe or vault in each location, and alarm systems.

The rate for coverage away from the premises is dependent upon the number of messengers insured and the limit, with discounts

for use of private conveyances by the messengers, and the use of guards.

Worthwhile savings are permitted for policies issued for a term of 3 years.

118. Why is it important for school districts to keep accurate records of all their insured properties?

All of the policies discussed in this chapter contain a provision that the insurance company is not liable unless the Insured keeps books and accounts in such a manner that the company can accurately determine the actual amount of loss sustained.

119. What is the most complete combination of coverages which a school district can obtain for insurance against loss of money, securities, and other property under normal conditions of burglary, robbery, or theft?

a. Broad Form Money and Securities Insurance
b. Mercantile Open Stock Insurance
c. Public School Systems Blanket Bonds
d. Floater Insurance

Some districts, of course, may not have need for all of these coverages.

120. Is there any advantage in having Broad Form Money and Securities Insurance and Public School System Blanket Bonds written by the same company?

Yes. Where two different companies are involved, the district must be able to indicate whether the loss was caused by a school employee or by some outsider, in order to determine which company is responsible for the payment. If the district cannot pinpoint the culprit, there could be a delay in reaching a settlement until the respective responsibilities of the two carriers is determined. If both coverages are in the same company, this problem is eliminated.

G. AUTOMOBILE PHYSICAL DAMAGE

121. What types of Automobile Physical Damage Insurance are available to school districts?

The following types of coverage are available:

a. Specific Perils:

1. Fire, Lightning and Transportation
2. Theft
3. Windstorm, Earthquake, Hail, Flood
4. Riot and Civil Commotion, Vandalism and Malicious Mischief
5. Combined Additional Coverage

b. Comprehensive
c. Collision or Upset
d. Towing and Labor Cost

122. What are some of the hazards covered by Comprehensive Insurance?

Comprehensive pays for virtually any accidental damage to the vehicle other than Collision or Upset. Some of the common hazards which are insured are:

a. Fire
b. Theft
c. Explosion
d. Earthquake
e. Windstorm
f. Hail
g. Water
h. Flood
i. Vandalism
j. Riot or Civil Commotion
k. Missiles
l. Falling Objects
m. Breakage of glass from any cause, including collision

Comprehensive, however, excludes mechanical and electrical breakdown, and freezing. Damage to tires is limited to fire and theft, or damage which occurs from the same cause as other loss covered by the policy.

123. Why should a school district spend money to insure schoolbuses against theft?

While it is unlikely that a thief would want to steal a schoolbus, the policy covers loss of, or damage to equipment, such as tires, tools, batteries, and fire extinguishers, which may be attractive to thieves.

124. What does Collision Insurance cover?

Damage to the Insured's vehicles resulting from collision with any other object, or upset of the vehicles. Collision Insurance would apply, for example, if the insured vehicle collides with another automobile, hits a stationary object such as a pole or abutment, or overturns.

Collision Insurance is normally written with a deductible, usually at least $50, which reduces the cost of the coverage by eliminating insurance on small claims. Selection of higher deductibles usually will produce substantial savings in premium, especially for districts which operate a number of buses.

125. Should school districts carry Collision on schoolbuses?

Since individual schoolbuses may be worth $10,000 or more, an uninsured collision loss might be a serious matter to the district.

The cost for Collision Insurance can be surprisingly small. School districts qualify for preferential rates on Collision, as compared with commercial insureds. Also, during the summer months, the Collision rate can be reduced on buses not used for passenger-carrying purposes, by attaching a Repair and Testing Endorsement. A moderate deductible, say $100, $250, or $500 will further reduce the cost. Vehicles under $500 in value can be eliminated from the coverage. If at least five vehicles are covered for Collision, Fleet Rating can further reduce the premium.

The board of education should weigh the premium for Collision against the possible loss to the district if Collision coverage is not carried.

126. How is the value of insured vehicles established?

There are two principal methods:

a. Stated Amount

The Stated Amount form is mandatory for all risks which qualify for Fleet Rating.

At the inception date of the policy a value is indicated on each insured vehicle. This would be the cost for a new vehicle, or the estimated depreciated value for a

used automobile. In case of loss, the company is liable for the Actual Cash Value of the property damaged, but not exceeding the Stated Amount.

b. Actual Cash Value

At the inception of the policy, the value of the vehicle is stated as Actual Cash Value. When a loss occurs, the Insured is indemnified up to the actual value of the automobile as it existed at the time of the loss. This form is often used to insure private passenger type vehicles.

127. Is any automatic coverage provision offered in Automobile Physical Damage policies?

Yes. There are several automatic coverage provisions, including the following:

a. Automatic coverage on any automobile acquired by the Insured which replaces an automobile covered under the policy, and 30 days' automatic coverage during which the Insured may report to the carrier additional automobiles which it acquires.

b. If all vehicles are insured in a single company, automatic coverage is provided on additions and replacements without time limit.

128. Should Automobile Physical Damage Insurance be written in the same company which carries Automobile Liability coverage for the district?

The school district's insurance program can be simplified by including the Automobile Physical Damage Insurance in the same policy with the Automobile Liability coverage. This eliminates one policy, and makes it easier to keep track of changes in the fleet, since reports need be made only to the one company on vehicles added or eliminated. On the other hand, some companies that are not active in writing Automobile Liability Insurance offer preferential rates on Automobile Physical Damage Insurance.

129. Do Automobile Physical Damage policies pay for loss of use?

The only provision of this type in the Automobile Physical Damage field is the payment for loss of use by theft. If a vehicle insured for theft is stolen, the company will pay up to $5 daily, commencing 72 hours after the theft has been reported to the police, subject to a maximum limit of $150.

There is no provision in the ordinary policies for payment of loss of use while a vehicle is laid up as the result of collision, vandalism, fire, or other perils. This could be a serious loss to the district if, for example, several or all of their buses were damaged by fire in the bus garage. Some companies are willing to write special Loss of Use provisions on automobile policies, but the cost is usually rather substantial.

130. Is Experience Rating available on Automobile Physical Damage policies?

Yes. It is available on fleets of five or more vehicles. Experience Rating can apply to Fire, Theft, or Comprehensive, as well as to Collision Insurance.

CHAPTER II

LIABILITY INSURANCE

A. GENERAL INFORMATION

131. What does Liability Insurance cover?

Liability Insurance covers only liability imposed by law upon the district, and does not automatically provide payments to the injured party. Damages are legally owed only if the district can be shown to have been negligent. However, insurance companies often make settlements of certain claims rather than let them go to court, if they feel the district was negligent, or that it is less expensive to dispose of the claim in this fashion.

132. Are boards of education required by law to carry Liability Insurance?

No. However, it is doubtful if any board would expose a district to the possible large financial burdens which might result from liability awards decided against the district without insurance.

133. Does a school board have immunity from liability claims because it is a governmental body?

No. A board of education is liable under common law as a corporate body for its own negligence, and for the negligent acts or omissions of its officers and employees.

134. What two principal types of Liability Insurance are of interest to school districts?

Insurance companies, for underwriting and policy writing purposes, ordinarily divide liability into two major areas:

a. General Liability
b. Automobile Liability

135. What basic differences are there between these two types of Liability Insurance?

a. General Liability Insurance covers the legal liability of the Insured which arises out of the ownership, maintenance, and use of school premises, including liability exposures incidental to the premises, such as elevators and new construction.

b. Automobile Liability Insurance covers the legal liability of the Insured which arises out of the ownership, maintenance, and use of motor vehicles, including the loading and unloading hazard.

136. What kinds of Liability coverage are available for school districts under each of the above types of insurance?

The district may include any or all of the following types of liability coverages in its policy:

a. General Liability

1. Premises-Operations Liability (often called Owners', Landlords', & Tenants' coverage, or OL&T), including Elevators--if any.
2. Owners' Protective Liability.
3. Contractual Liability.
4. Products Liability.
5. Completed Operations Liability.
6. Medical Professional Liability or Malpractice.
7. Personal Injury Liability:
   Hazard Group A--False arrest, detention, or imprisonment, or malicious prosecution.
   Hazard Group B--Libel, slander, defamation, or violation of right of privacy.
   Hazard Group C--Wrongful entry or eviction, or other invasion of right of private occupancy.
8. Liability of School Officers and Employees, as required by Sections 3023, 3028, and 3811 of the New York Education Law.
9. Liability from administration of Employee Benefit Plans.

b. Automobile Liability

1. Owned Automobile Liability.
2. Employers' Non-Ownership Liability and Hired Automobiles.
3. Liability of School Officers and Employees, as required by Sections 3023, and 3811 of the New York Education Law.
4. No Fault Automobile Coverage.

137. What specific exposure does each form of Liability Insurance cover?

a. General Liability

1. Premises-Operations Liability - Accidents or occurrences arising out of the ownership, maintenance, or use of premises, and all operations incidental thereto. This includes occurrences which arise out of maintenance operations either by employees of the district or by independent contractors. Premises coverage includes Elevator Liability - accidents arising out of ownership, maintenance, or use of elevators, or escalators.

2. Owners' Protective Liability - Accidents arising out of operations performed for the Insured by independent contractors in connection with the construction of new buildings or demolition of existing structures.

3. Contractual Liability - Liability assumed by the Insured under a contract or agreement.

4. Products Liability - Occurrences away from school premises which arise out of the use of, or the existence of any condition in goods or products sold, handled, distributed, or manufactured by the Insured.

5. Completed Operations Liability - Occurrences after the Insured has completed work.

6. Medical Professional Liability or Malpractice - Occurrences arising from errors, mistakes, or malpractice on the part of doctors, dentists, nurses, dental hygienists, or other medical professionals.

7. Personal Injury Liability:

Hazard A: Claims arising from unlawful arrest, detention or imprisonment, or unjustified prosecution.

Hazard B: Claims arising from written or verbal statements which are libelous, slanderous, or defamatory, or which violate an individual's privacy.

Hazard C: Claims arising from illegal entry, eviction, or other invasion of right of private occupancy.

8. Protection of School Officers or Employees, as required

by Sections 3023, 3028, and 3811 of the New York Education Law - Actions against school officers or employees arising from the performance of their duties within the scope of their employment.

9. Liability for Administration of Employee Benefit Plans - Claims from persons who fail to qualify for benefits under any plan administered by the Insured, due to error, or neglect, or omission on the part of the Insured.

b. Automobile Liability

1. Owned Auto Liability - Accidents arising out of the ownership, maintenance, or use of motor vehicles owned or term leased by the Insured.

2. Employers' Non-Ownership Liability - Accidents arising out of the operation of motor vehicles not owned or hired by the Insured but used in the business of the Insured. Examples are employees who drive their own cars on school business, or parents who operate their cars for transportation under school sponsorship.

3. Hired Automobile Liability - Accidents arising out of the operation of motor vehicles hired by the Insured.

4. Protection of School Officers or Employees, as required by Sections 3023 and 3811 of the New York Education Law - Actions against school officers or employees arising from the performance of their duties within the scope of their employment.

School employees who have an accident while driving a school-owned vehicle are covered by the Liability Insurance Policy carried by the district. However, for accidents which occur while the employee is driving his own vehicle on official school business, his own automobile liability policy is the primary coverage.

138. What is the general scope of the coverage provided by these forms of insurance?

The normal insuring clause covers the liability imposed upon the Insured by law to pay damages because of bodily injury, sickness, or disease, including death resulting therefrom, or damages because of injury to, or destruction of, property of others, and "caused by an occurrence."

139. Are there any geographical limitations on standard General Liability coverage?

Yes. Coverage is afforded only for occurrences in the United States, and Canada, and in American possessions. A school district may have exposures outside this area, such as student trips to European countries. The school district's insurance program should be extended to cover foreign exposures when they arise. Many Catastrophe Excess Liability policies provide worldwide coverage, but there will be an uninsured amount by reason of the "drop down provision" unless primary Liability coverage is arranged.

140. What is an "occurrence," as used in a Liability Insurance policy?

An "occurrence" is either an "accident" or an exposure to conditions which result during the policy period in bodily injury or property damage which was neither expected nor intended, from the standpoint of the Insured. This is a more comprehensive term than "accident," which must be an event at a definite time and place. The term "occurrence" is broad enough to cover claims which arise from exposure to some condition over a period of time, provided the injury becomes apparent during the term of the policy. The claim of a person who alleges that he has contracted a disease from being exposed over a period of time to unhealthful conditions is an example of a claim which would be covered under a policy written on an "occurrence" basis.

141. Is Property Damage coverage available under the various forms of General and Automobile Liability Insurance?

Yes. It is always included in Automobile Liability policies. While Property Damage coverage is optional on General Liability forms, the cost is relatively small, and the importance of including Property Damage Insurance as part of the district's coverage, with adequate limits, cannot be stressed too strongly.

142. Are separate insurance policies needed for all of the kinds of Liability Insurance mentioned in Question 136?

No. It is possible, and usually desirable, to combine all of the coverages in a single overall Liability policy, or in one General Liability or Multi-Peril policy, and one Automobile Liability policy.

143. What are the methods of obtaining these coverages?

a. The board of education selects the coverages which they feel the district needs and arranges to have them written under Schedule Liability policies.

b. The board of education purchases Comprehensive Liability policies for all exposures.

144. What form of Liability coverage is recommended?

It is recommended that school districts obtain Comprehensive Liability coverage, either in a single all-inclusive policy or by dividing the coverage between a Comprehensive General Liability or Multi-Peril Policy, and a Comprehensive Automobile Liability Policy.

145. Why are Comprehensive Liability policies recommended over Schedule Liability forms?

Schedule Liability policies insure only those exposures which are selected by the Insured. The board of education must recognize in advance what these exposures are, and if new hazards develop during the policy period, the policy must be amended to include them. Comprehensive Liability policies, on the other hand, are automatic in that new exposures which arise during the policy period are covered immediately by the terms of the contract.

146. Is there any advantage in having all Comprehensive Liability insurance written in the same company?

Yes, the principal advantage is that the possibility of a dispute between two different companies over the responsibility for settling a claim is avoided. This type of conflict sometimes arises over an accident during the loading or unloading of schoolbuses on school premises, since both Automobile and General Liability forms may be applicable.

Some carriers still use a Premium Discount Plan, which applies if the total liability premium exceeds $1,000 annually. The percentage of discount increases with the size of the premium. If both the Automobile and General Liability hazards are insured in one company, with a common expiration date, the total of the premiums is used in establishing the percentage of discount, and the total discount is greater than if the discounts were calculated separately.

B. GENERAL LIABILITY INSURANCE

147. How can a district be protected against liability for injuries which occur on school premises to persons such as students, or members of the public?

This protection is afforded by Premises-Operations Liability Insurance.

148. Do General Liability policies cover claims from school employees who are injured in the course of their employment?

No. Such claims are not covered. However, liability for damage to employees' property is covered.

149. How can a district be protected against claims for injuries to school employees sustained in the performance of their duties?

Workmen's Compensation and Employers' Liability Insurance protect the district with respect to injuries, or occupational diseases sustained by employees in the course of their employment.

General Liability Insurance can be extended to cover claims against the district by employees who allege personal injury such as libel, slander, or false arrest.

150. What happens if the company refuses to make a settlement and the district is sued?

The Liability policy requires the insurance company to provide legal defense to the Insured and to pay the incidental expenses in connection with the litigation. If the court awards damages to the claimant, the company must pay the damages up to the limit of the policy.

151. Does this mean that the Liability policy provides legal defense in excess of the liability limit for which the insurance company is committed?

Yes. In the event that an award exhausted the amount of coverage carried by the Insured, the legal expenses incurred in the defense of the case would be borne by the insurance company in addition.

152. Should school administrators inform injured persons that their damages will be paid by the school's insurance company?

No. All Liability policies reserve to the insurance company the right to decide which claims will be paid voluntarily, and which claims will be resisted. An admission of liability by the Insured would violate the terms of the contract, and might cause the insurance company to refuse to cover the claim.

153. What should school administrators do when they learn of an accident involving a student or other member of the public?

A report of the accident should be filed immediately with the insurance carrier or its agent. The report should include all information as to the exact details of the accident, including the names of any witnesses. It is most important that detailed information be supplied to the insurance company, since claims from injured persons are often not filed until long after the accident, when the details of the accident would be difficult to ascertain.

154. What is meant by Immediate Medical and Surgical Relief?

This is the first aid rendered to an injured person immediately after an accident. While the word "immediate" is subject to a variety of interpretations, most companies do not recognize as first aid any treatment given more than 24 hours after the injury.

155. Does General Liability Insurance cover the cost of Immediate Medical and Surgical Relief to injured persons?

General Liability policies do cover the cost of Immediate Medical and Surgical Relief for all claimants except pupils of the Insured. If the Insured wishes to have the insurance apply to pupils also, an additional premium is charged. The Immediate Medical and Surgical Relief can be extended to apply to athletic activities, including calisthenic drills and gym classes only, or to apply to all pupil activities.

156. What are the disadvantages of covering Immediate Medical and Surgical Relief claims under a Liability Insurance policy?

Claim payments are included in the district's Liability loss experience, with a resulting adverse effect on the experience modification. Further, because it is essentially limited to the treatment within 24 hours, it is often a source of irritation to parents when it will not respond with respect to treatment rendered beyond 24 hours, or to second and subsequent visits to the doctor.

157. Is it permissible for a school district to purchase Accident Insurance coverage for pupils?

Yes. Subdivisions 7-a and 7-b of Section 1604, and subdivisions 8-a and 8-b of Section 1709 of the Education Law permit school districts to insure pupils against injury because of accidents sustained while:

a. Participating in physical education classes, and intramural and interscholastic sports activities, or

b. In school, on school grounds, while being transported between home and school in a schoolbus, and during sponsored trips.

158. What are the minimum limits of liability for Premises-Operations and other General Liability coverages?

a. Bodily Injury - $25,000 each occurrence - for all injuries sustained by one or more persons

b. Property Damage - $5,000 each occurrence - for all damages sustained by one or more persons

159. What are the maximum limits of liability available to school districts under a General Liability policy?

It is possible to obtain coverage in almost any amount desired by the Insured for either Bodily Injury or Property Damage Liability. Bodily Injury limits of $500,000 or $1 million each occurrence are not uncommon. The need for extremely high limits on Property Damage is usually not great in a school district, unless there is a possibility that fire may spread to valuable nearby buildings belonging to others.

See also "Catastrophe Liability Insurance" with respect to the need for high limits of Liability Insurance.

160. What statutory protection is afforded school board members and employees who may be sued for alleged negligence while performing their duties?

Section 2560 of the Education Law requires the board of education in a city having a population of 1,000,000 or more to be liable for, and assume liability to, the extent that it shall save harmless and protect employees or authorized participants in the school volunteer program of the City School District of New York for damages arising out of the negligence of such persons resulting in personal injury or property damage, either within or without the school buildings.

Section 3023 of the Education Law requires boards of education and trustees in school districts having a population of less than 1,000,000, and Boards of Cooperative Educational Services, to save harmless and protect teachers, practice or cadet teachers, members of the supervisory and administrative staff, and employees against suits for accidental bodily injury or property damage.

Section 3028 of the Education Law requires the board of education or trustees of any school district to provide an attorney, and to pay the attorney's fees and expenses incurred in the defense of a teacher in either a civil or criminal action arising out of disciplinary action taken against any pupil of the district by the teacher while acting in the discharge of his duties within the scope of his employment. The Law does not require the district to pay judgments awarded in civil suits, nor fines, or other penalties levied in criminal actions.

Section 3811 of the Education Law requires school districts other than New York City to indemnify any superintendent, principal, teacher, or other member of the teaching and supervisory staff, or any trustee or member of the board of education for all reasonable costs and expenses, including awards resulting from any action or proceeding against him, other than one brought by a school district or a criminal action, as long as the court or the Commissioner of Education, as the case may be, certifies that he appeared to have acted in good faith.

These brief descriptions are not complete, and should not be relied upon with respect to issues involving these sections. Reference to the Law itself is suggested in such instances.

161. Is amendment of the district's liability coverage necessary in order to implement this protection on behalf of board members and employees?

No. The indemnity and protection mentioned must be provided by the district regardless of the provisions of the district's insurance policy or policies.

162. Is a district permitted by law to insure its obligations to protect employees as required by Sections 2560, or 3023, 3028, and 3811?

Although only Sections 3023 and 3028 specifically authorize purchase of insurance to cover the obligations they impose, there appears to be little question that it is legal for school districts to insure other legal obligations.

163. Can the General Liability policy be extended to cover a school district's obligations under these sections of law?

A General Liability policy endorsement known as the "Colleges or Schools" endorsement, which is included without additional charge on school district General Liability policies, includes board members and employees as Insureds. In addition, some insurers offer endorsements to the effect that coverage is afforded for the obligations imposed upon the district by these sections of the law.

Such endorsements, however, only extend the policy coverage--Bodily Injury, and Personal Injury, and Property Damage if elected--with respect to board members and employees. Section 3811 requires protection with respect to "any action or proceeding" against the individual it names. Certain actions or proceedings might involve allegations beyond the scope of Bodily Injury, Personal Injury, or Property Damage Liability.

164. Is insurance available which will cover most conceivable actions or proceedings against board members or employees which are beyond the scope of the General Liability policy?

Yes. Liability insurance known as "School Board Indemnity" has been introduced in recent years which would provide indemnity for legal costs and awards for most conceivable allegations within the purview of Section 3811, but beyond the scope of the General Liability policy.

Such policies usually have two insuring agreements. The first indemnifies 1) individual board members, 2) board members and selected employees, or 3) board members and all employees. The second reimburses the district to the extent that it has indemnified individuals as required or permitted by law. The legality of purchase of such policies has been questioned on the basis that the first insuring agreement may provide insurance protection which is broader than the protection required by law, which constitutes, in the form of premiums, a prohibited gift of public funds. This issue has not been adjudicated to date.

Since "School Board Indemnity" Insurance is a relatively new type of coverage, revisions and entirely new policy forms may be expected. Boards of education are therefore best advised to seek the opinion of the school attorney relative to the legality of purchasing this type of insurance.

165. Does Premises-Operations insurance cover any types of hazards related to transportation?

Yes. Premises-Operations Liability coverage written for school districts contains what is known as a "Colleges or Schools" endorsement. This endorsement provides that the policy will cover any transportation hazards not connected with vehicles owned, operated, or hired by or for the Insured, an employee, or an officer of the district.

166. What is an example of a transportation hazard that would be covered by Premises-Operations coverage?

A group of students visit New York City on a school-sponsored trip. If a pupil is injured on a public conveyance, such as a bus or subway train, and suit is brought against the district as a result of the accident, the Premises-Operations Liability coverage would apply.

167. When does a school district need Owners' Protective Liability Insurance?

Any time that an independent contractor is engaged in construction which enlarges the size of the structure, or during demolition work on school property. Claims against the district are covered under Owners' Protective Liability Insurance, with the premium based on the contract cost.

168. If the contractor has satisfactory liability coverage, why does the school district need it too?

The contractor's insurance does not extend protection to the school district. The courts have held that where accidents occur in the performance of the work, the owners of the property may be negligent for failing to select competent contractors or for failing to exercise proper supervision over the work.

169. A board of education contracts to have repairs and alterations performed on an existing building. Is Owners' Protective Liability Insurance needed for these operations?

No. As long as the work does not involve changing the size of the building or demolition operations, the district's Premises-Operations coverage will apply.

170. A school doctor renders improper treatment to a pupil, or fails to render proper treatment, or fails to note an adverse medical condition, and the parents sue both the school district and the doctor. Does the school district's liability policy cover both the district and the doctor?

Some insurers feel that the basic wording of the Comprehensive General Liability coverage, written on an "occurrence" basis, is adequate to protect the school district. Others, however, feel it necessary to attach an Incidental Professional Malpractice endorsement. It is best to check this point with the district's insurer.

The doctor would be insured under the district's policy only if he is a bona fide employee, and then only to the extent of the coverage afforded to the district. Such coverage would not be adequate to cover his malpractice exposure. The school doctor is best advised to purchase his own Malpractice Insurance.

171. Does a school district generally have a need for liability protection on products it may sell, handle, or distribute?

Yes. A school district is legally responsible for injury caused by food which is spoiled, or which contains harmful substances, or for defects in other products which it sells or distributes.

172. Is this coverage afforded by General Liability Insurance?

The premises coverage includes protection for accidents which occur on the school premises as a result of consumption of food or other articles which were sold, handled, or distributed by the school. On the other hand, if food sold or distributed by the school is consumed away from the premises, the Premises-Operations coverage does not afford protection.

173. How can coverage be obtained to protect the district against Products Liability occurring away from the premises?

By including in the General Liability policy coverage for Products Liability. The cost for this protection is quite low.

174. When would a school district need Contractual Liability Insurance?

Contracts between school districts, or BOCES, and other parties may incorporate so-called Hold Harmless agreements whereby the district assumes the liability of the other party in addition to its own.

Hold Harmless clauses which are included in leases of premises signed by a school district, or contained in easement agreements, are covered without additional charge by Premises-Operations coverage. However, most other types of Hold Harmless agreements are not covered, and would require a specific Contractual Liability insuring clause. The rates for the Contractual Liability coverage are figured separately on each contract, and are dependent on the exact wording of the clause which is to be insured.

175. Does Premises-Operations Liability Insurance include coverage for elevator accidents?

Yes. It covers accidents which arise out of the ownership, maintenance, or use of elevators, escalators, and hoists.

The insurance company ordinarily makes regular inspections of elevators which they insure, in order to minimize the possibility of accident. In some cases, inspection charges are made for this service.

176. What is the difference between Liability Insurance applying to bodily injury, and Liability Insurance applying to personal injury?

Policies insuring against bodily injury cover claims for physical harm to the claimant, including sickness and death resulting therefrom.

Insurance covering personal injury applies to claims for damages as a result of infringement of the claimant's legal rights, or injury to his reputation. For the purposes of providing insurance, personal injury liability is usually subdivided into the following groups:

Hazard Group A: False arrest, detention, or imprisonment, or malicious prosecution.
Hazard Group B: Libel, slander, defamation, or violation of right of privacy.
Hazard Group C: Wrongful entry or eviction, or other invasion of right of private occupancy.

Insurance can be written on any one or all of these groups.

177. What are some examples of the need for Personal Injury Liability coverage?

There is need for coverage on libel and slander because parents have the right to inspect pupil records. In addition, actions can be brought by employees who feel their reputation has been impaired by the district, during hearings as to their professional competence. It is well for the district to consider elimination of a standard exclusion in the Personal Injury endorsement of claims brought by employees.

False arrest claims may arise from attempts to apprehend persons believed to be responsible for theft or vandalism.

178. What effect does the loss experience of the district have on General Liability rates?

Under General Liability, small risks pay the manual rates regardless of their actual loss experience. However, for larger accounts the premiums become subject to Experience Rating. In this event, the insurance company or the Rating Bureau figures an experience modification by a formula which compares the premiums with the incurred losses during a prior period--usually a 3 year cycle. If the Insured's loss experience has been more favorable than average, a credit is applied to the manual rates for the next year. If the loss experience has been less favorable than average, a debit or surcharge is applied to the manual rate for the next year.

Since both paid losses and estimated losses are used in these computations, it is important that the district receive detailed information from its agent as to exactly what premiums and losses were used in figuring its experience modification. Objection should be made where estimates on unsettled claims appear to be excessive.

Some insurance companies also use "schedule rating" plans, under which debits and credits are assigned on a judgment basis for physical exposures and management practices.

C. AUTOMOBILE LIABILITY INSURANCE

179. Does a school district have to obtain Automobile Liability Insurance before it can operate school-owned vehicles?

No. A school district can obtain license plates merely by presenting an omnibus application to the Department of Motor Vehicles. Because of the catastrophe hazard inherent in bus transportation, few districts would consider it prudent to operate motor vehicles without adequate Liability Insurance.

180. What basic insuring agreements are contained in the Automobile Bodily Injury and Property Damage policy?

a. Pay all sums which the Insured is legally obligated to pay as damages for bodily injury, sickness, or disease, including death resulting therefrom;

b. Pay all sums which the Insured is legally obligated to pay as damages because of injury to, or destruction of, property of others, including loss of use thereof;

c. Defend any suit for bodily injury or property damage against the Insured and pay all costs resulting from such suit;

d. Pay expenses incurred for Immediate Medical and Surgical Relief.

181. When does a school district's coverage provide payment for Bodily Injury or Property Damage?

Settlements are made only when the claimant can show that the accident resulted from the negligence of the school district, or its employees, or agents.

182. Aren't many suits against school districts settled before damages are awarded by a court?

Yes. Insurance companies often make settlements in certain cases when this procedure seems to be the least costly method of handling the claim. However, the negotiation of a pretrial settlement rests with the insurance company, and not the school district.

183. What protection is afforded to a schoolbus driver or other employee driving a school-owned vehicle by the district's Automobile Liability Insurance, when he is involved in an accident?

He is defined in the policy as an Insured, and is therefore protected in any suit which alleges negligence. The insurance company would defend him under the policy for claims involving either bodily injury or property damage.

If the driver is injured in the accident, he is entitled to the benefits provided under the New York State Workmen's Compensation Act, even if his own negligence caused the accident.

184. Does a school district have to pay for passenger liability coverage on its bus equipment year-round?

No. If buses are used for carrying passengers only during the 10-month school term, the ordinary Liability Insurance can be written for the 10-month period at pro rata of the annual premium. Coverage is provided during the summer months by a "Repair and Testing" endorsement. Of course, any buses used during the summer months to transport children to summer sessions, swimming, or summer recreation programs should have full passenger coverage in force for the entire year.

185. What is a Repair and Testing Endorsement?

When a schoolbus is used for carrying passengers only during the 10-month school term, an endorsement can be attached which affords coverage during the summer months for use of the bus in getting it ready for the next school term, including inspection, road testing, and repairs. A small charge is made on each bus to which the endorsement applies. Since this endorsement excludes use of the bus for carrying passengers during the summer months, it is important that there be a clear understanding with the insurance company as to which buses are to have this restricted insurance.

186. Is it legal for a school district to permit usage of its schoolbuses by others for nonschool purposes?

Yes, but only as specifically authorized by law.

Section 1709, subdivision 25-b of the Education Law permits the lease of the schoolbuses to other school districts, BOCES, and County Vocational Education and Extension Boards when they are not needed by the district. Subdivision 25-c of the same section permits lease to other school districts and certain municipalities for use with respect to youth activities as outlined in the law.

The only private groups authorized to use schoolbuses are Senior Citizen Centers recognized and funded by the Office for the Aging or any nonprofit incorporated organization serving senior citizens. This authority is provided by Section 1502 of the Education Law, newly added by Chapter 531 of the laws of 1973.

187. How should the insurance coverage on such leased buses be handled?

Subdivision 25-f of Section 1709 provides, with respect to the lease of buses authorized by Subdivisions 25-b and 25-c, that Liability, Fire, Workmen's Compensation, and Collision Insurance shall be provided for the benefit of the lessor, and that the lessee shall pay the additional cost thereof.

There is no similar provision in Section 1502 relative to lease to senior citizen groups.

Since these sections of law provide only for lease or rental of buses and do not authorize districts to provide transportation, the driver should be an employee of the lessee, and, therefore, insured by the lessee for Workmen's Compensation.

With respect to Liability and Physical Damage Insurance, one approach is for the district to suspend its coverage, and require the lessee to provide the insurance on behalf of the district as well as the lessee. This is cumbersome, but has the advantage that any loss will not be reflected in the district's experience modification. The alternative is to continue the district's coverage in force. Although this would be the simplest approach, any losses would be charged against the district's experience. If this latter alternative is elected, the district's policy should include a "Special Trips" endorsement.

188. How is the premium determined under the Comprehensive Automobile Liability policy if the district doesn't report substitute or additional vehicles at the time they are put in use?

An audit is made at the expiration of the policy, in which the premium is computed pro rata from the date such vehicles were first licensed to the end of the policy period. The Insured must keep a record of the vehicles acquired or sold so that the auditor can make the proper adjustment.

189. Does the Standard Automobile Liability and Property Damage Insurance offer any automatic coverage for substitute or additional vehicles put in use by a school district?

a. Automobiles acquired as substitutes for vehicles insured in the policy are automatically covered.

b. The Insured has 30 days to report additional vehicles to the insurance carrier if coverage is written under any policy other than the Comprehensive Automobile Liability policy.

190. Can a school district which contracts for transportation of its pupils obtain liability coverage for its possible liability as a result of an accident involving the contractor's bus?

Yes. Hired Car Coverage is available for this exposure. The cost is very low. The rate is based on the amount of the contract during the policy period. The insurance is ordinarily included in the district's Automobile Liability policy for the same limits as those which apply to owned vehicles.

It is recommended that each contractor be required to furnish to the board a Certificate of Insurance indicating the coverage and limits which he is carrying, including a provision that the board will be notified if the coverage is changed or cancelled.

The school district can claim protection under the policy carried by the contractor up to whatever limits he has in force. The school district's Hired Car coverage would provide excess insurance on the interest of the school district only, and would not cover the contractor, who has only the limits of insurance which he purchased in his own policy.

191. Does Automobile Liability Insurance cover the cost of Immediate Medical and Surgical Relief to injured persons?

Yes, and this coverage is afforded both on pupils and others, without exceptions of the type found in Premises-Operations Insurance. (See Questions 154 and 155)

192. Does Automobile Liability and Property Damage Insurance cover liability of a school district for injuries to any passengers other than pupils riding a school-owned bus?

Yes, such a policy would cover any passengers authorized transportation by school officials, other than employees of the district. Employees are covered by Workmen's Compensation.

193. What is Employers' Non-Ownership Liability Insurance?

It is insurance taken out by an employer to cover its liability for use of automobiles owned and operated by employees and others in the interest of the employer.

194. Why should a board of education purchase Employers' Non-Ownership Liability Insurance when the owner carries Liability Insurance?

Since the school district may be liable for such usage, it should make certain that there is adequate coverage. Even though the employee has a policy, there still may be an exposure to the district because:

a. The employee may have insufficient limits.

b. The employee's insurance may lapse, or the policy may be voided by failure of the Insured to comply with requirements of the policy.

195. A group of parents donate their cars to transport pupils on a school function. Would the Employers' Non-Ownership Liability policy cover the district?

Yes. It should be noted that the Employers' Non-Ownership Liability coverage does not protect the parents, who must rely on the coverage of their own insurance policies.

Coverage would also be provided the school district by the Premises-Operations Policy under the endorsement mentioned in Questions 165 and 166.

196. What is the coverage known as Protection Against Uninsured Motorists?

The New York Law requires that every liability policy insuring the owner of a vehicle registered in this State include benefits on accidents which result in bodily injury caused by a motor vehicle on which Bodily Injury Liability Insurance is not in force. The limits are set at $10,000 each person, $20,000 each accident, and apply to bodily injury only. The cost is a small flat charge per car. The insurance can be extended to apply to accidents which occur outside the State of New York.

This clause makes it possible for the insurance carrier on the vehicle to pay claims to occupants who are injured as a result of an accident which is caused by another vehicle upon which no Bodily Injury Liability Insurance is in force.

197. What is the best way for a district to cover all motor vehicle exposures?

All exposures should be included in a single Comprehensive Automobile Liability Policy, with adequate limits of liability.

198. How do insurance companies compute the premium on Comprehensive Automobile Liability policies?

At the inception of the policy, a Survey of Hazards must be completed to develop the known exposures, such as:

a. All owned and term leased automobiles;
b. The estimated cost of hired automobiles;
c. The number of Class 1 and Class 2 employees for Employers' Non-Ownership Liability.

After the effective date, the school district must keep a record of changes in exposures, such as acquisition or disposal of vehicles. At the end of the policy period, an audit is made by the company of all exposures during the policy period. The original deposit premium is adjusted by the auditor to reflect either additional or return premiums for changes in exposures.

199. What effect does the loss experience of the district have on Automobile Liability rates?

Under Automobile Liability, insureds with small premiums are charged the manual rates. If the district produced automobile basic limits premiums of at least $1,000 in the last 2 years of the experience period on not less than 3 buses or 5 vehicles of any kind, its Automobile Liability premium becomes subject to experience rating. The Rating Bureau then figures an experience modification by formula, in a manner generally similar to the General Liability procedure described in Question 178.

Some insurance companies have developed their own experience rating plans, which may vary from the Bureau plans in their eligibility requirements and effect.

D. NO FAULT AUTOMOBILE INSURANCE

200. What is the New York "No Fault" Auto Insurance Law?

This refers to the "Comprehensive Automobile Insurance Reparations Act" effective February 1, 1974. It substitutes a reparations system for the traditional method of making a claim in civil courts under common law against another person who was alleged to be at fault because of negligence or lack of care. The term "No Fault" derives from the fact that most payments will be made without the need to determine fault or negligence by litigation.

201. Does the No Fault Law eliminate all civil law suits concerning auto accidents?

No. In the first place, the law applies only to personal injury. Claims for property damage are not affected.

Secondly, the law is considered to be a "modified" rather than a "pure" no fault law, because it permits litigation for collection of damages in civil courts in any case which involves "serious" personal injury. The law defines "serious injury" as an injury which results in:

a) death

b) dismemberment

c) significant disfigurement

d) a compound or comminuted fracture

e) permanent loss of use of a body organ, member, function, or system

f) any injury which caused expenses which exceed a "threshold" of $500 for medical, hospital, surgical, nursing, dental, ambulance, x-ray, prescription drugs, or prosthetic devices.

202. Why was "No Fault" insurance felt to be an improvement?

Under the liability insurance system, it was necessary for a person injured in an automobile accident to establish negligence on the part of another party in order to collect his own loss. If he were partly at fault, he would very likely not collect his economic losses.

Under "No Fault," the policy covering the auto in which he was riding would pay his medical bills and loss of earnings, without regard to which party was at fault for the accident.

203. Are all types of vehicles subject to the No Fault Law?

The law applies to all types of vehicles except:

Motorcycles,
Electric invalid chairs,
Snowmobiles,
Vehicles on rails or tracks,
Self-propelled caterpillar or crawler-type equipment operated at contract sites,
Self-propelled combines, corn or hay harvesting machines, and tractors used for agricultural purposes.

All owners of vehicles subject to the law, including school districts and schoolbus contractors, are liable for No Fault benefits.

204. What benefits are available to injured persons under the No Fault statute?

The No Fault Law indemnifies "basic economic losses." The mandatory first-party benefits, called Basic Personal Injury Protection, include:

a) Loss of earnings from work, but reduced by 20 percent and limited to not more than $1,000 per month for a period of 3 years.

b) Medical expenses from date of accident.

c) Other expenses up to $25 per day for 1 year from date of accident.

205. What is the maximum benefit?

The maximum basic economic loss for each eligible injured person in any one accident shall not exceed $50,000.

Since the limit is payable to each person in the vehicle, the theoretical maximum loss on a schoolbus with 60 occupants would be $3 million, plus the exposure to legal claims from any passengers who sustain "serious injury," as previously defined.

206. What persons are eligible to receive Basic Personal Injury Protection (PIP) benefits?

The benefits are payable to owner, operator, or any occupant of the vehicle, and to any person injured through use of the covered vehicle, such as a pedestrian.

207. Are there any exclusions of persons eligible for Basic PIP benefits?

Yes. The law excludes any person:

1) Who intentionally causes his own injury.

2) Who sustains injury while operating a motor vehicle in an intoxicated condition, or while impaired by drugs.

3) Injured while committing a felony or seeking to avoid arrest.

4) Operating a motor vehicle in a speed contest or race.

5) Operating or occupying a motor vehicle known by him to be stolen.

208. Does the No Fault Law eliminate all need for Auto Medical Payments?

No. There are some cases where Medical Payments would still be useful. For example, the Medical Payments coverage would cover injury in an accident outside New York State, and may cover some of the persons who are excluded from basic PIP benefits because of intoxication, etc. There is probably little need for a public school system to purchase Medical Payments insurance on its vehicles, however.

209. Are there any offsets against the benefits in the No Fault Law?

Yes. Workmen's Compensation benefits and Social Security Disability Benefits are subtracted from No Fault benefits. However, PIP benefits are primary to any statutory New York Disability benefits.

School districts must provide Workmen's Compensation benefits, but are not obligated to provide Statutory Disability. They may do so at the option of the board of education.

210. Does the No Fault Law apply to accidents anywhere in the U.S.?

No, the Basic PIP benefits apply only to accidents which occur in the State of New York. If a vehicle registered in New York and subject to the law leaves the state and has an accident outside New York State, the claims will be handled under the regulations which apply wherever the accident occurs.

211. Can Basic PIP benefits be extended to apply outside New York State?

Yes, but the prescribed endorsement extends out-of-state benefits only with respect to the named insured and relatives who reside in his or her household. Such an endorsement, therefore, would not provide out-of-state No Fault benefits to employees or pupils. Liability, and Medical Payments (if purchased), would apply on essentially the same basis as they did prior to No Fault.

212. Does the No Fault Law eliminate the need for purchasing Bodily Injury Liability Insurance?

Not at all, because every owner of a vehicle in New York State is still exposed to claims for damages in civil suits for any

accident involving "serious injury." Also, if the vehicle is driven outside New York State, the owner may be subject to claims for damages under the laws of other states or Canada.

213. Does a school district need to continue to carry Property Damage Liability Insurance on its vehicles?

Yes. The No Fault Law does not apply to property damage claims. These will continue to be handled on a liability basis, so the need for Property Damage Liability coverage is not changed.

214. What about Fire, Theft, Comprehensive, and Collision coverages?

The need for these coverages is not changed by the No Fault Law, which applies only to economic losses resulting from personal injury.

E. CATASTROPHE EXCESS LIABILITY INSURANCE

215. What is Catastrophe Liability Insurance?

Catastrophe or "Umbrella" Liability Insurance is a form of excess insurance which is intended to supplement regular Automobile and General Liability policies, both as to limits of coverage and as to breadth of protection. Insurance programs which use these forms are arranged to provide a primary layer of coverage, using conventional policies with limits adequate to deal with normal losses, and an excess layer intended to provide coverage for losses of catastrophic nature.

The primary layer is usually written for at least $300,000 each occurrence for Bodily Injury, and $50,000 each occurrence for Property Damage.

The excess layer is usually written with a single limit of at least $1 million each occurrence, covering Bodily Injury, Personal Injury, and Property Damage. The excess limits may be written for as high amounts as are needed. Excess limits of $5 million, or even $10 million are not uncommon today.

216. What advantages in coverage exist under Catastrophe Liability forms?

Since these policies are written only as excess coverage, they are written with fewer exclusions than conventional policies. For example, most Catastrophe Liability policies do not exclude property in the care, custody, and control of the Named Insured. In addition, they cover the Insured's liability arising from occurrences anywhere in the world, such as student trips mentioned in Question 139.

217. Is there any cost advantage to using a Catastrophe Liability Policy, rather than simply increasing the limits of the primary policies?

There may be a cost advantage, since Catastrophe Liability policies are not subject to experience rating, and the carriers have more leeway in calculating premiums for these forms. Also, many companies are willing to issue these policies for a 3-year term, which fixes the cost for this period of time.

218. Are all Catastrophe Liability policies the same?

Not at all. There is no standard contract. Individual insurance companies design their own forms. There is wide variation in the coverage from company to company.

219. How can we be certain we have purchased a good Catastrophe Liability policy?

The only solution is to make a point-by-point analysis of any policy offered for consideration. If any objectionable provisions are revealed, a request can be made to modify the contract, or another company's contract can be selected. Some such policies, for example, exclude coverage for liability arising from riot and civil commotion. Such an exclusion is felt to be an unacceptable limitation of coverage.

220. What is the "drop down" provision?

Since the Catastrophe Liability policy is broader than the primary insurance, it will respond in some instances where the primary insurance will not, and a provision is needed to establish the point at which it responds. It "drops down" to cover the loss in excess of a stipulated amount, which is normally either $10,000 or $25,000. Commonly referred to as the "insured's retention," this is a deductible, which applies to any claim which is not insured under the primary liability

coverage. In some cases the deductible applies to all loss, and in others it applies only to awards. The latter provides coverage for legal defense costs in the deductible area, a desirable feature.

CHAPTER III

FIDELITY AND SURETY BONDS

221. What kinds of surety bonds are of interest to school districts?

a. Statutory Public Official Bonds.
b. Public Official Dishonesty Bonds - individual or schedule form.
c. Public School Systems Blanket Bonds - honesty or faithful performance.
d. Contract Bonds.
e. Depositors' Forgery.

222. What is a Statutory Public Official Bond?

It is a written obligation required of a public official, guaranteeing that he will faithfully perform his duties and that he will honestly account for and pay over funds and property that come into his possession.

223. What school officers are required by law to be bonded?

a. Tax Collector - Sections 1805, 2124, 2130(5), and 2527 of the Education Law.

b. Treasurer - Sections 1805, 2122(4), 2130(5), and 2527 of the Education Law.

c. Internal Auditor - city school districts - Section 2527 of the Education Law.

d. Registration Agent for district obligations - Local Finance Law, Section 70.00, subdivision 4b. A bond is not mandatory when a bank serves as registration agent.

e. District Clerk - Section 2527 of the Education Law. A bond is required in city school districts when the

position of auditor has not been created.

f. Officers appointed to sign checks in lieu of Treasurer, and officers who countersign checks with Treasurer - Section 1720 of the Education Law.

224. Must the school officers mentioned in Question 223 furnish a separate undertaking to qualify for office?

No. Subdivision 2 of Section 11 of the Public Officers' Law was amended by Chapter 813 of the Laws of 1973 to permit the governing body (board of education) to elect to cover such officers under a blanket bond, along with the employees of the district.

The board of education should designate the limits of coverage for each officer, which limits can be higher than the amounts on the regular employees.

The term of the bond on the officers should be for the full term of office, to comply with Section 12 of the Public Officers' Law--See Comptroller's Opinion 61-791.

225. Do the Regulations of the Commissioner of Education require others to be bonded?

Yes. Section 170.2(d) requires that internal auditors in Central and Union Free School Districts be bonded.

Section 172.5 permits the board of education to assign any of its officers or employees to perform such duties as it may prescribe relative to extraclassroom activities. It requires the bonding of such of these officers or employees as the board deems necessary, in amount or amounts determined by the board.

226. What is the term of a Statutory Public Official Bond?

It usually runs concurrently with the public official's term of office. Where officials hold office for an indefinite period, a bond indefinite as to term is often filed. As a matter of policy, it is felt that where certain public officials may serve at the pleasure of the board of education, bonds of these officials should be filed for each school year.

227. Does this type of bond afford any protection for the school official on whom it is written?

No. A surety bond is not an insurance policy for the school official. When he fails, or is unable, to fulfill the obligations of his office, the surety company assumes his place to make good any loss to the school district. However, the surety company then has the right, under the law, to collect from the official the amount of the loss it has paid, plus the amount of expenses incurred in effecting recovery.

228. Does this mean that a school district tax collector, for example, would be held liable if school funds were stolen from his home?

Yes. He would be held liable for the disappearance of school funds regardless of the circumstances. However, the school district would be protected by the surety bond up to the bond limit, even though the tax collector could not make good the loss.

229. How can a school district official who is required to file an official undertaking be protected from liability for losses which are not due to dishonest acts on his part?

The Broad Form Money and Securities policy would protect the public official up to the limit of coverage against most losses of public money, checks, or securities. Loss of district money by fire, explosion, theft committed by outsiders, or mysterious disappearance would be insured under this policy. However, losses caused by the dishonesty of a school official or any school employee would be excluded. Subordinates can be required to file bonds to cover this contingency.

230. How is the premium computed for a separate school district Tax Collector's Bond?

The standard premium is figured at a rate of 75 cents per $1,000 on the entire tax roll. Since the premium is based on the amount of the tax levy, there is no saving in premium for setting the amount of the bond below the amount of the tax roll, unless the bond is set for less than 20 percent of the tax roll. In this latter case, the premium is computed at $3.75 per $1,000 on the amount of the bond, with a minimum premium of $10.

231. A school district has a tax levy of $300,000. Give examples of the premium charge for bonds of varying amounts.

Illustration

Bond in any amount from $60,000 to $300,000, ($300,000 x $.75/$1,000)	$225
Bond for $40,000 ($40,000 x 3.75/$1,000)	150
Bond for $20,000 ($20,000 x 3.75/$1,000)	75

The rates quoted in the two questions above are those used by most companies, and have been in effect since 1955. However, some carriers pay dividends or allow deviations from these rates to produce lower net cost.

232. How is the premium computed for a school district Treasurer's Bond?

Both the type of school district and certain administrative procedures have a bearing on the situation. The present provisions are:

Manual Rates for School District Treasurers in General

Bond up to $25,000	$2.50/$1,000 (Minimum $10 annually)
$25,000 - $50,000	62.50 plus $2.10/$1,000 above $25,000
$50,000 and up	115.00 plus $1.65/$1,000 above $50,000

NOTE: A 15 percent credit will be applied to the annual premium when a school district by budgetary appropriation provides for an annual audit and where such audit is actually made annually of the treasurer's accounts by an independent CPA or by an independent public accountant who is not an employee of a public body.

Special Rates for Treasurers of Union Free, Central, and City School Districts

Bond up to $10,000	$2.12/$1,000 (Minimum $10 annually)
$10,000 - $25,000	21.10 plus $1.60/$1,000 above $10,000
$25,000 and up	45.20 plus $1.40/$1,000 above $25,000

NOTE: To qualify for these special rates, the eligible school districts must meet certain requirements including the use of an approved system of treasurers' receipts and an annual audit of the treasurer's records by a CPA, an independent auditor, or a committee of three members of the board of education (excluding the clerk if also a board member). In addition, the treasurer's bond must be fixed at not less than 15 percent of the total estimated expenditures as shown in the adopted school district budget.

The rates shown have been in effect since 1955. They are subject to change, and some companies do not use this rate structure.

233. How is the amount of a Statutory Public Official Undertaking determined?

The various statutes neither prescribe nor suggest amounts or formulae for determining such amounts. Each board of education has the responsibility for determining the amounts for which official undertakings are to be written. One common method is to have the bond written for an amount which represents the largest amount of money that the school official might have in his custody at any one time. It should be remembered, however, that losses attributed to public officials usually result from an accumulation of dishonest acts over a period of time, often greatly exceeding the amount under his control at any single moment. Therefore, the board should attempt to determine how large an amount might be taken and concealed before discovery.

234. It seems possible that the application of the rate structures described above will result in amounts in excess of adequate needs and, therefore, in excessive premiums in many instances. Is it possible to obtain the required protection in lesser amounts at reduced costs?

Yes. As mentioned, some insurers do not adhere to these rate structures. Quotations can be obtained from such insurers. In addition, many districts have achieved significant premium savings by including Tax Collectors, and Treasurers, and other officials from whom undertakings are required, in the district's blanket bond.

235. What is meant by Cumulative Liability under a surety bond?

A surety company is liable up to the face amount of the bond for all acts or losses which occur during the term of the bond. If the same individual is elected or appointed to the same office for two or more consecutive terms, the total potential liability of the surety is the sum of the face amounts of the separate bonds which have been filed. This accumulation of liability from one term to another is known as Cumulative Liability. It must be remembered, however, that the surety is not liable for more than the face amount of the bond for losses which occurred during that term of office.

236. A school district treasurer is bonded during each of 5 school terms for $10,000. Over the 5-year period his accounts are short $50,000; $1,000 annually for the first 4 years, and $46,000 the last year. How would the surety company settle a claim of this kind?

The company would pay a settlement of $14,000 in accordance with the schedule below:

Year	Bond	Shortage	Settlement
1967	$10,000	$1,000	$1,000
1968	10,000	1,000	1,000
1969	10,000	1,000	1,000
1970	10,000	1,000	1,000
1971	10,000	46,000	10,000
Totals	$50,000	$50,000	$14,000

In other words, the settlement for any 1 year will never be greater than the amount of the bond.

237. Why are surety companies careful to ascertain that the board of education has passed a resolution at the beginning of each term, designating the bank which will be used as depository for school district funds?

The designation of depository relieves the collector, and treasurer, and their sureties from liability for loss of district funds through bank failure. If no resolution is passed, or if the official places public money in any bank not designated by the board, he and his surety will be liable for the loss if the bank fails.

238. What coverage is afforded a school district by a Public Official Dishonesty Bond?

This type of bond protects the district against the dishonest acts of various school employees who are not required to file a statutory bond.

239. What are the various types of Public Official Dishonesty Bonds which are available to school districts?

a. Individual

Covers an individual named employee for a specified amount.

b. Name Schedule

Covers two or more named employees, with a separate amount of coverage specified for each individual. This form must be amended each time there is a change in the name of the person to be bonded.

c. Position Schedule

Covers any employee while occupying one of the positions specified in the bond. The amount of coverage is indicated for each position separately. Since the names of the employees occupying the positions are not included in the bond, it is not necessary to change the bond unless a position is added or eliminated.

d. Public School System Employees Blanket Bonds

There are four options available:

1. Honesty Blanket Bond - (Aggregate Penalty)
2. Honesty Blanket Position Bond - (Multiple Penalty)
3. Faithful Performance Blanket Bond - (Aggregate Penalty)
4. Faithful Performance Blanket Position Bond - (Multiple Penalty)

240. What are the important differences between the two Blanket Bond forms?

a. Blanket Bond - or Aggregate Penalty Form

Insures each loss up to the face amount of the bond, regardless of whether one employee or several employees in collusion are responsible.
The minimum limit for coverage is $10,000.
The maximum limit can be as high as desired.

b. Blanket Position Bond - or Multiple Penalty Form

Insures up to the face amount of the bond on each individual who is identified as being involved in the loss. Therefore, on collusion losses this form will pay more than the Blanket Bond written for the same amount.
The minimum limit for coverage is $2,500.
The maximum limit for coverage is $100,000.
This form is more expensive than the Blanket Bond because of the greater coverage on collusion losses.

241. What information is used by the surety in rating these Blanket Bonds?

The application includes a section calling for a classification of officers and employees of the district. The employees are listed by job description, not by name. The most important for rating purposes are those employees who hold executive or administrative positions, and those who handle money, or maintain or audit accounts of money, or supplies.

242. What obligation does a Public Official Dishonesty Bond impose upon the Insured when a loss occurs?

The school district must prove that a bonded employee caused the loss. Under the Individual and Name Schedule Forms, the district must show that the insured employee was the one who caused the loss. Under either of the Blanket Bonds, it is sufficient to show that some employee caused the loss, even though the particular person responsible cannot be identified.

243. What is meant by the Discovery Period in connection with Public Official Dishonesty Bonds?

This is the period of time, usually 1 or 2 years, following the termination of the bond, during which the Insured may report to the surety losses which occurred during the period that the bond was in force. Dishonesty losses are often not discovered until some time after the dishonest act. The discovery clause gives the Insured a stated period of time after the termination of the bond to discover and report claims, but the clause also acts to cut off all liability of the surety at the end of the Discovery Period. The Discovery Period does not start to run until the bond is cancelled.

244. Is there an accumulation of coverage under the Public Official Dishonesty Bonds from 1 year to another?

No. Unlike the official undertaking, Dishonesty Bonds are written on continuous forms, which remain in effect until cancelled by either the Insured or the surety. The limit of coverage does not increase from year to year if the bonds are kept in force.

245. Can a school district ever receive more in settlement from a bonding company than the amount for which the bond is written?

Yes. The Excess Salvage Clause provides that the Insured may,

under certain circumstances, benefit beyond the amount of coverage.

Illustration

Amount of Loss	$5,000
Amount of bond on school employee	2,500
Amount paid by surety company under bond	2,500
Amount salvaged by surety company from employee	5,000
Legal expenses of company in effecting recovery	1,000
Net amount salvaged by surety company	4,000
Surety company pays Insured from salvage	2,500

(Thus the school district would be fully reimbursed for its loss even though the bond represented only 50 percent of the loss.)

246. Is coverage available on pupils who handle extracurricular funds?

Yes. While such pupils are not employees of the district, the two Public School System Blanket Bond Forms extend coverage without charge to include such individuals.

247. Will surety companies investigate employees?

Yes. Most surety companies will make investigations of individuals covered under Dishonesty Bonds, without charge. Under Blanket Bond forms, the investigation service is usually restricted to executive and money handling employees.

248. Does the school district have to prosecute the defaulting employee in order to collect under its Dishonesty Bond?

No. The standard forms do not require prosecution as a condition to recovery.

249. Do the Blanket Dishonesty Bonds cover loss of valuable property belonging to the district discovered to be missing at inventory?

No. In order to collect, the Insured must conclusively prove the loss to be due to employee dishonesty. Such losses might

have been caused by many other circumstances, such as theft by outsiders or improper recordkeeping.

250. What is a Contract Bond?

A Contract Bond is a surety bond that guarantees the performance of some contract or agreement.

251. What kinds of Contract Bonds concern school districts, and what does each guarantee?

a. Bid Bond

A bond furnished by a contractor with his bid, guaranteeing that, if his bid is accepted, he will execute a contract and furnish a performance bond acceptable to the school district. Bid Bonds are usually written for a percentage of the amount bid, commonly 5 to 20 percent.

b. Performance Bond

A bond executed by the contractor at the time of signing the contract, which guarantees the faithful performance of all provisions in the contract.

The Performance Bond also guarantees Maintenance Clauses in contracts for school construction, whereby the contractor agrees to make good on defective workmanship and materials for a stated period (usually 1 year) after completion.

c. Payment Bond

A bond executed by the contractor at the time that he signs the contract, guaranteeing that all labor and material bills incurred in the work will be paid. This eliminates the possibility of mechanics' liens being filed against the property. The Payment Bond is sometimes included with the Performance Bond in a single document, or it may be written separately.

d. Supply Bonds

Bid and Performance Bonds can be used in connection with purchase contracts, guaranteeing that certain materials will be furnished or supplied for the agreed price and on the agreed terms. These may be specific per contract or Annual Guarantee forms covering all bids during the year.

252. What are the advantages of Contract Bonds?

a. The school district knows that a contract will be completed, either by the contractor or the surety company, at a stipulated price.

b. Incompetent or dishonest contractors have difficulty in obtaining contracts because they will not be able to qualify for a surety bond if their reputation is poor.

c. Construction progress is aided, since payment of bills for labor and material are guaranteed in the Performance Bond or as a separate Payment Bond. Supplyhouses usually make prompt shipments to contractors whose credit has such backing.

d. Deserving contractors are often aided by surety companies to finish a troublesome contract. Without this aid the contractor might be in serious trouble.

253. Are Contract Bonds standardized forms?

No. Many different bond forms are in common usage. Individual companies print their own forms. Many architects and engineers have bond form wordings that they have devised as part of their specifications. Some school attorneys draw forms especially adapted to their own district's requirements.

254. What form should be used?

The school attorney or the person who advises the district on insurance matters should scrutinize any Contract Bond form offered by the contractor, to determine if it includes all of the normal coverage, and that it does not include any restrictions which may be detrimental to the school district. In case of doubt as to the proper wording, the forms copyrighted by the American Institute of Architects are generally acceptable.

If the contract is awarded in several parts, such as separate building, plumbing, heating, and electrical contracts, it is desirable that all of the contractors execute identical Performance and Payment Bond forms.

255. Can the school district require the contractor to purchase his surety bonds from a surety company or agent selected by the board of education?

No. This practice is specifically prohibited by Section 444c of the Penal Law. The district does, however, have the right to approve the adequacy of the surety offered by the contractor, and the form of the bond.

256. Can contracts, other than construction contracts, be supported by a Performance Bond?

Yes. For example, the specifications for the pupil transportation contracts may include the requirement that bid bonds or letters of intent signed by a corporate surety company must accompany any bid. This requirement will tend to discourage weak or untried firms from submitting a bid. The specifications may also require that the successful bidder will furnish a Performance Bond, guaranteeing that he will perform the contract. This type of requirement, however, may reduce competition by eliminating some firms which could provide the service, but do not have financial strength adequate to obtain a Bid and Performance Bond.

CHAPTER IV

SPECIAL MULTI-PERIL POLICIES

257. What is a Special Multi-Peril Policy?

This is a package policy, commonly referred to as an SMP policy, which combines Property Insurance (fire and allied perils), General Liability coverage, and Crime coverages in one policy. Some companies can also include Boiler and Machinery insurance.

258. What are the advantages of the SMP?

The principal advantages are:

a. Reduced premium cost as compared with specific individual policies,

b. Coordinated coverages which are designed to fit together in a comprehensive program of protection.

259. Do all companies use identical policy forms?

No. The SMP designed by Insurance Services Office is most widely used, but many individual insurance companies have designed package policies which provide similar or, in some cases, even broader protection.

The material in this section of the Handbook is based upon the Insurance Services Office SMP policy.

260. What are the major coverages which can be written under the SMP form?

Section I:	Property Coverage
Section II:	Liability Coverage
Section III:	Crime Coverages
Section IV:	Boiler and Machinery Coverage

SMP SECTION I: PROPERTY COVERAGE

261. Under Section I--Property Coverage, what perils are mandatory?

At least Fire and Extended Coverage perils must be provided. The SMP Institutional form which affords such coverage is MLB 104. "MLB" refers to the Multi-Line Bureau which became part of the Insurance Services Office.

262. Under Section I, what perils may be added at the option of the Insured?

1. Vandalism & Malicious Mischief--MLB 121.

2. Optional Perils--MLB 123. This form adds coverage for limited glass breakage, falling objects, weight of ice, snow or sleet, water damage, and collapse.

3. Sprinkler Leakage--MLB 122. This form covers accidental leakage from an automatic sprinkler system in the premises.

263. Can Buildings and Contents be insured on an "All Risks" basis?

Yes. Special Institutional Property Form MLB 105 insures against "all risks of direct physical loss" to Buildings, to Contents, or to both Buildings and Contents. This form takes the place of forms MLB 104, MLB 121, MLB 123, and MLB 129, or 130.

There are a number of important exclusions, however. These include exclusion of damage caused by flood, surface waters, backing up of sewers and drains, and gradual wear and tear. Further, some types of property are subject to "limitations." For example, metal smokestacks, awnings, and radio and television antennas are not covered against loss caused by wind, ice, snow, or sleet.

Review of these limitations and exclusions is desirable, to develop a clear understanding as to the exact breadth of coverage afforded under special or "all risks" forms.

264. What are some other optional coverages under Property Coverage?

1. Glass Insurance--Form MLB 179.

2. Inland Marine Floaters, such as:

Cameras	MLB 168
Musical Instruments	MLB 169
Fine Arts	MLB 167

3. Extra Expense Insurance--Form MLB 144

265. What deductibles are mandatory under SMP forms?

There is a mandatory minimum deductible of $100, which applies to all perils. Some insurance companies may require higher deductibles on certain perils as a condition to writing the coverage. These are so-called "underwriting deductibles." While some rate credits are allowed for underwriting deductibles, their main purpose is to delete coverage for losses anticipated by the insurance company, so as to improve the profitability of the account. For example, if a district has been having a series of vandalism losses ranging in size to $1,000, the insurance carrier may ask for a deductible of $1,000, to eliminate payment of future claims below this amount. The school business administrator should evaluate any demand for higher deductibles, to make certain that the district is properly protected.

266. Does the SMP Policy have any features not found in the Standard Fire Policy?

The SMP Policy includes several important "extensions of coverage." Both forms MLB 104 and 105 include:

a. Newly acquired property--up to 15 percent of policy limit, but not to exceed $100,000 on new buildings, and additions, and to Personal Property at any new location. The coverage on new property ceases 180 days from date of acquisition, unless reported to the carrier.

b. Off premises--The Insured may apply up to 2 percent of the insurance, but not over $5,000, to cover property removed from regular locations for the purpose of cleaning, repairing, reconstruction, or renovation. This extension does <u>not</u> cover property in transit.

c. Personal Effects--the Insured may apply up to 1 percent, but not exceeding $5,000, to cover personal effects of officers or employees while located on the premises, but limited to $500 on personal effects owned by any one

person. This extension does not apply if the loss is covered by other insurance, such as personal Homeowners' policies or floater policies carried by the individual.

d. Valuable Papers and Records--the Insured may apply up to 1 percent, not exceeding $5,000, to valuable papers and records, including manuscripts, card index systems, files, tape, disc, drum, or other magnetic recordings, or storage media for electronic data processing records. This extension covers only the cost of research and other expense necessary to reproduce or replace such valuable papers and records.

267. Does the SMP Policy cover trees, plants, and outdoor equipment?

Trees and shrubs are covered up to $1,000, but not over $250 on any one tree or plant, for damage by fire, lightning, explosion, riot, civil commotion, and aircraft.

Outdoor pools, fences, outdoor signs, paved surfaces, wharves, docks, and retaining walls are excluded. These items can be specifically covered where circumstances warrant.

268. What coinsurance provisions apply to Institutional Property Forms MLB 104 and 105?

The rules require the Insured to carry at least 90 percent coinsurance to value.

269. What is the Institutional Agreed Amount Clause?

This is a form, identified as MLB 184, which suspends the Coinsurance Clause for a specified period of time--normally 1 year. The agreed amount must be not less than 90 percent of the values of the insured property, as shown in a Statement of Values signed by the Insured, and filed with the company and ISO. The attachment of the Agreed Amount Clause eliminates the possibility of a coinsurance penalty in settling a claim. The clause can be extended for a new period of 1 year by filing with the company a new Statement of Values. Failure to file a new Statement of Values causes the insurance to revert automatically to a coinsurance form.

270. Is the SMP Policy cheaper than the Standard Fire Policy?

The rates per $100 of insurance are substantially lower. The rules permit a reduction of 15 percent in the Fire, Extended Coverage, and Vandalism rates. Risks previously buying only Fire Insurance must purchase Extended Coverage. In most instances, the SMP Policy will provide better coverage at lower cost than is available under a Standard Fire insurance program.

271. Is Replacement Cost coverage available?

Yes. The regular form is an Actual Cash Value one, but it can be amended by endorsement to provide Replacement Cost Insurance on Buildings, or on both Buildings and Contents.

272. Is a larger amount of insurance required on Replacement Cost Forms?

The Insured must carry an amount equal to the specified coinsurance percentage of the Replacement Value of their buildings and contents, whereas the Actual Cash Value form is based on the depreciated value of the property. As a result, the required limit is larger for Replacement Cost coverage.

273. Is a commercial appraisal required to issue the SMP Policy?

While it would furnish values most satisfactorily, a commercial appraisal is not required. The Insured can use values furnished by competent architects or builders. In some cases, the insurance company may assist in the appraisal.

274. Does the SMP Policy cover new buildings during the course of construction?

Yes. It is permissible, and usually desirable, to cover Builders' Risk exposures under SMP forms. It is suggested that a Completed Value Builders' Risk Form be attached prior to the commencement of construction operations. Both a Named Peril form and a Special Form (i.e., "All Risks") are available.

275. Will the cost of Builders' Risk coverage be less if the insurance is included under the SMP Policy?

In general, it is less expensive to insure Builders' Risk exposures under SMP Policies, because of the provision in the rules for discounting the rates charged for specific policies. The cost will ordinarily be at least 15 percent below the cost of a separate policy.

SMP SECTION II: LIABILITY COVERAGE

276. Is the Liability coverage available in the SMP Policy essentially the same as that available in Comprehensive General Liability Policy?

Yes, with one very important exception. The basic Liability Form MLB 200 is not comprehensive. It covers only the premises insured in the policy and necessary incidental operations. To secure automatic coverage on new exposures which arise midterm, and to cover exposures not identified when the policy was written, it is necessary to add Comprehensive General Liability Form MLB 202. This additional coverage, which can generally be added without additional cost, is considered extremely important.

SMP SECTION III: CRIME COVERAGES

277. What types of Crime Coverage can be included in the SMP Policy?

The policy can include, under MLB 300:

a. Blanket Employee Dishonesty or Faithful Performance of Duty Bonds

b. Money and Securities Broad Form-- Inside and Outside Premises Coverage

c. Depositors' Forgery Bond

Under Form MLB 156:

d. Open Stock Burglary

Under Form MLB 157:

e. Open Stock Theft Coverage

SMP SECTION IV: BOILER AND MACHINERY COVERAGE

278. Can Boiler and Machinery Insurance be included in a SMP Policy?

Yes, Boiler and Machinery coverage can be incorporated in the Policy, or it can be written under a separate "Supplementary Policy," coordinated with the SMP Policy. In either case, the premiums are subject to discount, as compared with a standard Boiler Policy.

279. Can Auto Insurance be included?

Not in the Standard ISO SMP, but some individual company policies can include Auto Liability and Physical Damage coverages.

CHAPTER V

PUPIL ACCIDENT INSURANCE

280. Does the Education Law provide boards of education with the authority to purchase Pupil Accident Insurance?

Yes, as indicated in the answer to Question 157, Sections 1604 and 1709 offer discretionary powers to trustees and boards of education to insure pupils against damage occasioned by accidental injuries.

281. Where can a school district buy Pupil Accident Insurance covering activities permitted by Statute?

A considerable number of insurance companies, both stock and mutual, offer such policies. In addition, both Blue Cross-Blue Shield and the New York State High School Athletic Protection Plan, Inc. offer Pupil Accident Insurance to school districts.

282. What are the principal features of the New York State High School Athletic Protection Plan?

The Plan pays for expenses for medical, hospital, or dental services when accidental bodily injury is sustained by an insured student in a school-sponsored activity supervised by personnel employed by the board of education. The benefits are scheduled indemnities. Catastrophic expense is included. The maximum benefit for one injury is $10,000. Dental benefit for injury to natural teeth is limited to $500 per injury.

The Plan contains a Non-Duplication Provision--no benefits are paid to the extent benefits are payable under any other policy or prepayment plan.

There is a choice of coverage:

a) Blanket coverage on all pupils in all sponsored school activities.

b) Interscholastic sports - with listing of names.

c) Intramural sports and physical education for all pupils - or with listing of names.

Information as to rates, schedules, and regulations can be obtained from New York State High School Athletic Protection Plan, Inc., 1121 State Street, Schenectady, New York, 12304.

283. Are the plans offered by commercial insurance companies standardized contracts?

No. There is considerable variation from one company to another in the nature and extent of the benefits offered. The maximum amount of medical reimbursement for any one accident may run from as little as $500 to over $10,000. Most of the policies contain some restriction on dental expense, usually limiting dental coverage to a smaller amount than other types of injury. Some plans include deductible provisions which apply to all or to certain specified losses.

Some policies also include a Capital Sum, which applies to pupils who die as a result of accidental injury covered by the policy, and Principal Sum benefits for loss of sight or dismemberments caused by accident.

284. How can a school district determine which company's policy provides the best coverage?

It is difficult to evaluate properly the respective merits of competing policies. The board of education can ask their broker of record or insurance agent to tabulate the plans to indicate the amounts of coverage, deductible provisions, and exclusions of the policies under consideration, the premiums charged for each, and the claim handling facilities of the companies. This would provide factual information as a basis for choosing the policy best suited to the district's requirements.

285. If the board of education does not wish to purchase a pupil accident policy with public funds, can the district administer a plan under which the parents pay the premiums for their children?

No. It is not proper for a school district to assist a particular agent or insurance company in soliciting accident insurance on pupils by sending leaflets home through the classroom teachers, or collecting the premiums for transmission to the agent. This is considered a violation of Article VIII, Section 1, of the State Constitution, on the basis that it permits use of public funds, employees, and/or facilities for the benefit of private entities.

286. Is there any way that a Pupil Accident Insurance plan could be administered without the direct participation of the school district?

There appears to be no objection to having an outside organization make an Accident Insurance plan available to those parents who wish to participate, as long as public funds, employees, or facilities are not utilized in the process. Some PTA groups have handled such programs, though the manual of the National Congress of Parents and Teachers indicates that sponsorship of a commercial insurance program is a violation of their noncommercial policy.

287. What does the term "non-duplicating" mean?

It means that the policy does not pay for expenses which are insured under other accident or health insurance policies, or prepayment medical expense plans. The non-duplication provision may apply to any other policy, or it may be limited to only certain coverage such as hospital coverage. The purpose is to reduce premium cost by deleting some or all expenses covered under other insurance available to the injured student.

288. Does the existence of Pupil Accident Insurance have a beneficial effect on Liability Insurance premiums?

Student Accident Insurance certainly reduces the number of claims which must be handled by the liability carrier. Many parents will be satisfied by the payment of medical expenses and will not resort to litigation to recover damages. However, in the case of serious injury, especially any case where there is permanent bodily damage, or disfigurement, the district will almost certainly be faced with a claim for damages in a civil suit which must be defended by its liability carrier. It is likely that the long range effect will be to reduce liability insurance premiums, but this is difficult to document.

CHAPTER VI

WORKMEN'S COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE

289. Does the New York State Workmen's Compensation Law require a school district to provide Workmen's Compensation benefits on all employees?

Yes. Benefits must be provided for teachers, school aides, all employees in so-called hazardous employments, and all other employments. However, officers, including members of the board of education, the school tax collector, and the school treasurer, are not covered by the Law unless benefits are extended to them by resolution of the board. The Workmen's Compensation insurer should be advised of such a resolution.

290. Under what conditions are employees entitled to receive benefits under the Workmen's Compensation Law?

Employees are entitled to receive benefits if they sustain an accidental injury, or occupational disease which arises out of, and in the course of employment.

291. What principal benefits accrue to an injured employee under Workmen's Compensation?

The principal benefits include the following:

a. All necessary medical, surgical, and hospital expense for an unlimited period after the accident;

b. Weekly benefits (called Compensation) during the period of disability. A 7-day waiting period applies before the benefits are paid, but if the period of disability extends for more than 14 days, payments are made retroactive to the date the disability occurred. The benefits are equal to 2/3 of average

weekly wages, subject to minimums and maximums specified in the law;

c. Award for permanent partial disability, such as dismemberments, or loss of sight, or hearing. The amount of the award is based upon the schedule in the Compensation Law, and varies with the severity of the loss of function; and

d. If the employee dies as a result of any injury at work, funeral expenses and benefits for surviving spouse and dependent children under 18 years of age.

292. Does an employee have to prove that his employer was negligent before he can obtain Workmen's Compensation benefits?

No. The employee is entitled to Workmen's Compensation benefits even though his own negligence caused the injury. The only exclusions in the Law are for injuries solely occasioned by intoxication of the injured employee while on duty, or by willful intention of the injured employee to bring about the injury, or death of himself, or another.

293. How does a Workmen's Compensation Insurance policy protect the school district?

The insurance company agrees to:

a. Pay all benefits provided by the New York State Workmen's Compensation Law, including amendments;

b. Provide services in investigating claims and appearing for the employer at all hearings;

c. Defend the employer in any suit or other proceeding which may be instituted against him because of injury to an employee; and

d. Pay all costs imposed upon the employer in any legal proceeding.

294. What is the purpose of the Employers' Liability provision which is included in the Workmen's Compensation policy?

Workmen's Compensation benefits are the only benefits to which an injured employee or his representatives are entitled from his employer, if the accident comes within the scope of the Law. However, if the case is one where for some reason the Compensation Law is not applicable, the employee can sue the employer for damages.

An example would be an employee who becomes ill at work, but who does not receive Compensation benefits because the illness is declared not to be an occupational disease. If the employee then sues the employer for damages, the Employers' Liability insuring clause in the policy would respond on behalf of the employer. The standard limit of insurance of $100,000 for such nonoccupational disease claims can be increased for an additional premium. Employers' Liability claims are relatively rare in New York State, because of the comprehensive nature of the state's Workmen's Compensation Law.

295. What are the methods for guaranteeing that benefits owed to injured employees will actually be paid?

Since benefits in many cases are payable to the injured employee over a period of years, the Law provides that their payment must be guaranteed in one of the following ways:

a. Purchase insurance in the State Insurance Fund individually or through participation in the Workmen's Compensation Safety Group described in the answer to Question 334;

b. Purchase insurance from any stock, mutual, or reciprocal carrier licensed to do this kind of business in New York State; and

c. Self-insure, either individually or by joining a county self-insurance fund.

296. Can an employee sue a third party who caused his injury?

Yes. The employee retains the right to sue any member of the public who is responsible for causing his injury. The Compensation insurance carrier, however, has a right to recover from any liability award any payments made under the Compensation statute. The employee can keep any excess recovered in his liability action. An example would be a bus driver who is injured by the negligent driving of another motorist.

297. How is the premium for Workmen's Compensation Insurance figured?

The Workmen's Compensation Insurance Rating Board publishes a manual which includes classifications for different kinds of occupations. The classifications which commonly apply to school districts are as follows:

Classification	Code #
a. Professional Employees, Teachers or Clerical Office Workers	8868
b. Bus Drivers	8894
c. Garage Employees	8385
d. Executive Officers (Board Members, Tax Collector, Treasurer, District Clerk)	8809
e. All Other Employees (Custodians, Cafeteria, etc.)	9101

The rates are revised annually to reflect statewide loss experience. Amendments are also made in the rates whenever the Legislature increases the benefits.

298. In rating Workmen's Compensation Insurance, are gross payrolls used?

The annual premium is determined by multiplying the rate for each classification by the "total remuneration" of all employees in the classification.

In determining the total remuneration, the wages of each employee are subject to a maximum of $300 per week average for the period of employment. Thus, a 12-month employee would have a maximum payroll of $15,600, a 10-month employee would have a payroll of $13,200, and an 11-month employee $14,400.

If officers are included in the coverage by resolution of the board, nonsalaried officers, such as members of the board of education, are included at an arbitrary payroll of $100 each for the year. For salaried officers, the actual wages are used, subject to the maximum of $300 a week mentioned above, and a minimum of $50 per week.

299. How may the basic premium computed from manual rates be modified?

a. Loss and Expense Constant

Each risk which produces an annual premium of less than $500 is charged an additional flat premium known as the Loss and Expense Constant. This charge is made both because the expense of servicing small risks is higher, and the loss ratio on small risks is more severe.

b. Premium Discount

Because certain of the expenses of the insurance carrier grade downward as the size of the premium increases, most stock and mutual carriers allow Premium Discounts to risks developing annual premiums of more than $1,000. The State Insurance Fund does not use the Premium Discount Plan.

c. Experience Rating

A risk producing a premium of $1,500 or more during the last year, or an average of at least $750 during the last 2 years of the experience period is subject to Experience Rating. This plan produces either an increase or decrease in the current manual rate, depending on the employer's past loss experience. The rate modifier is calculated by the Compensation Rating Board on the basis of the premiums and losses in the 3-year period which ended 1 year prior to the date of the present policy.

d. Dividends and Advance Discounts

Mutual companies and some stock companies may pay dividends at the expiration of the policy, based upon the profits made by the carrier. Certain companies offer advance discounts in rate in lieu of dividends. The State Insurance Fund has authority to allow advance discounts where warranted. In addition, the State Insurance Fund underwrites the "Safety Group" described in the answer to Question 334.

e. Retrospective Rating

An optional rating plan, which can be used on risks which develop a premium of $5,000 or more annually. Under Retrospective Rating, the premium varies between a mini-

mum and a maximum guaranteed by the company in direct proportion to the losses incurred during the policy period. Retrospective Rating plans are tailored to meet the specific requirements of the individual risk.

300. When an employee is engaged in a dual capacity, such as a bus driver-custodian, how is his rate determined?

His entire payroll will be assigned to the highest rated classification which applies to any part of his duties. For example, if his salary as custodian is $4,000, and his salary as bus driver is $2,000, his entire payroll of $6,000 would be included at the rate applicable to custodial employees.

301. May school employees be covered for the benefits provided under the Disability Benefits Amendment to the New York State Workmen's Compensation Law which applies to nonoccupational injury or sickness?

Yes. The law was amended in 1966 to permit, but not require, municipal corporations, including boards of education, to become covered employers. Coverage can be afforded all employees, or certain classes of employees only. Such coverage is often referred to as "DBL," for "Disability Benefits Law."

302. Are the manual rates for Compensation Insurance the same for all companies?

The New York Workmen's Compensation Insurance Rating Board, 200 East 42nd Street, New York, New York, 10017, establishes the manual rate and experience rates used by all stock and mutual companies. The State Insurance Fund also uses their rates, but has the right to deviate either upward or downward on individual risks. The final premium is also modified by whatever premium discount or dividend plans the particular carrier uses.

303. What plan currently underwritten by the State Insurance Fund, other than the Safety Group mentioned in the answer to Question 295, is available to school districts?

General Fund Group 90 is available to risks with favorable experience. Districts which elect to be insured in this group receive an advance discount, presently 25 percent, from manual rates.

304. Is a school district authorized to be self-insured for Workmen's Compensation?

Yes. Section 50 (4a) of the Workmen's Compensation Law provides such authority, and Section 6-j of the General Municipal Law provides the authority to establish a reserve fund for this purpose. It is well for the board to consider, however, that a self-insured district must raise taxes to pay all benefits to injured employees as provided under the Law. These benefits may be payable over a term of many years, and the employer must have representatives who are trained in processing claims and representing the district at Compensation hearings. These costs should be considered, in making a comparison with the cost of insurance.

305. Who determines what payments are made under Workmen's Compensation Insurance?

The insurance carrier must start payments promptly after the accident is reported. If there is any question as to the nature or extent of the benefits on a particular case, informal hearings are held before a referee employed by the State Labor Department. The referee is empowered to decide both questions of fact and law. Under some conditions, these decisions may be appealed to the Appellate Division of the Supreme Court.

306. What is the obligation of the employer when an employee sustains an injury that is compensable?

a. The employee should receive whatever medical attention is necessary. The Law grants him the privilege of going to the physician of his own choice.

b. A report of the accident must be made within 10 days to the insurance carrier, with copies to the Workmen's Compensation Board and State Labor Department. A short form of accident report, known as the C 2.5, is used if the accident involves only medical expense, or lost time of 7 days or less, and a longer form, known as a C 2, which includes a statement of wages, is required if the employee is prevented from working for more than 7 days by reason of the accident.

c. The employer must also cooperate with the carrier in any hearings or legal actions which follow.

CHAPTER VII

GROUP INSURANCE ON SCHOOL DISTRICT EMPLOYEES

307. Is it permissible for school districts to arrange Group Insurance programs which provide benefits for school district employees?

Yes. Several sections of the Law extend such authority:

a. Section 1604, subdivision 31a, Section 1709, subdivision 34a, and Section 2503, subdivision 10a of the Education Law permit the establishment of Group Insurance programs applying to teachers and other employees for Life Insurance, or accident and health insurance benefits, or medical and surgical benefits, or hospital service benefits, or any two or more of such kinds of benefits.

b. Section 92a of the General Municipal Law authorizes the making of contracts with nonprofit membership corporations organized under Section 9c of the Insurance Law, as well as with any insurance company authorized to do business in New York for furnishing medical, surgical, and hospital services or insurance benefits.

In 1963, the Legislature amended this portion of the General Municipal Law to permit school board members to participate in hospitalization and medical service plans.

308. Is it permissible for school districts to share the expense of Group Insurance programs?

Yes. These sections of the Law make it permissible, at the discretion of the trustees or the board, to pay a share of the cost, or even the entire cost, of Group Insurance on school employees.

School board members who elect to participate must pay the total cost of coverage on themselves and on their family members.

309. What are the sources of Group Insurance?

a. Life Insurance is available from commercial insurance companies. These carriers are willing to provide detailed proposals, outlining the provisions in their policies and the monthly rates which would be applicable.

b. Hospitalization and Medical-Surgical Insurance may be obtained from Blue Cross and Blue Shield directly, or as a part of the State Health Insurance Program, and from commercial insurance companies. Blue Cross and Blue Shield are service-type contracts which provide benefits through participating hospitals and physicians.

c. Major Medical Insurance is available as a part of the Statewide Plan of the State Health Insurance Program, and also from commercial insurance companies.

d. Group Dental Insurance is not offered to school districts in the State Health Insurance Program, but it is available directly from GHDI, Blue Shield, and commercial insurance companies.

e. Group Income Protection or "income disability" coverage is available from commercial insurance companies.

310. What is the State Health Insurance Program?

This is a program for providing Health Insurance for state employees and their dependents, established pursuant to Article XI of the Civil Service Law. Section 163 of the Civil Service Law permits school districts and other public entities to participate in the program.

A package known as "The Statewide Plan" is available to school districts in all parts of New York. It provides:

a. Hospitalization Benefits provided by Blue Cross;

b. Surgical and Medical Benefits provided through Blue Shield; and

c. Major Medical Insurance through the Metropolitan Life Insurance Company.

Two alternative plans, known as the GHI and HIP options, are also available. GHI is available throughout the State, while HIP is primarily available in the New York City and Long Island area.

The State Health Insurance Program requires the district to pay not less than 50 percent of the Statewide Plan cost for employees and retirees, and not less than 35 percent of the Statewide Plan cost for dependents of both. The equivalent dollar values are required minimums with respect to the GHI and HIP options. School districts may, however, pay any portion up to the full cost of any of the three alternatives.

311. Where can information be obtained relating to the State Health Insurance Program?

Complete information as to the benefits, the costs, and the procedures to enroll may be obtained from:

Employee Insurance Section
New York State Department of Civil Service
State Campus
Albany, New York 12226
Telephone: (518) 457-5776

312. Can Health Insurance coverage be continued into retirement?

Yes. Both the State Health Insurance Program and commercial plans make it possible to extend benefits to retirees, if they meet eligibility requirements.

313. How can the board determine which Group Insurance Plan to purchase?

It is likely that the board will need advice from someone well versed in Group Insurance in reaching a decision as to the program best adapted to their requirements. Health Insurance benefits may vary widely from one plan to another. The cost of the insurance is also subject to considerable variation, depending upon the extent of the benefits, the eligibility rules, and the exact makeup of the group as to age, sex, and number of dependents.

Detailed comparisons of benefits and costs for the plans under consideration may be provided by the district's insurance adviser or Broker of Record.

CHAPTER VIII

ADMINISTRATIVE ASPECTS OF THE SCHOOL INSURANCE PROGRAM

A. TYPES OF INSURANCE COMPANIES

314. What are the distinguishing characteristics of the various types of insurance companies?

a. Stock Company

A stock insurance company is a corporation whose capital and initial surplus is paid in by the stockholders. These assets are held by the company as security for meeting the obligations on contracts issued by the company. The management of the company is responsible to the stockholders, who act through a board of directors. Most of the insurance written by stock companies is on a Guaranteed Cost basis, that is, without dividend.

b. Mutual Company

A mutual insurance company is an incorporated organization which is owned by the individuals and corporations who purchase its policies. The management of the company is responsible to a board of directors elected by the policyholders. Mutual insurance carriers fall into three general categories:

1. Local or County Mutuals - These companies usually limit their writings to a single county, and operate on an assessment basis with only a small advance premium when the policy is written;

2. Factory Insurance Mutuals - This is a group of long-established Fire Insurance mutuals who limit their writings to larger risks of superior construction, especially sprinklered and fire-resistive properties;

3. Regular Fire and Casualty Mutuals - These companies charge advance premiums in a manner similar to stock

companies. Excess earnings remaining after payment of losses and expenses may be returned to insureds in the form of a dividend at the expiration of the policy. When premiums are insufficient to pay losses and expenses, an assessment may be levied upon and collected from policyholders to make up the deficiency. A mutual company which maintains a surplus and unearned premium reserve equal to the capital and surplus required of a stock company is permitted to issue nonassessable policies. Virtually all mutual companies which write school district business in New York State issue nonassessable policies.

c. Reciprocals

An insurance reciprocal is a group of individuals, firms, and corporations who exchange insurance on one another, each of the group insuring a pro rata portion of every risk, including his own. The management of the reciprocal is in the hands of an "attorney-in-fact."

d. State Insurance Fund

This is an entity created by the New York State Legislature to act as an insurer for Workmen's Compensation, Employers' Liability and Disability Benefits. The management of the State Insurance Fund is in the hands of state officials.

B. THE INSURANCE REGISTER

315. What is an Insurance Register?

An Insurance Register is a portfolio which contains pertinent information relative to the status of all insurance carried by the Insured.

316. What items of information does it include?

It lists the number of each policy, kind of coverage, date of policy issuance and expiration, amounts of coverage, property insured, rate, premium, name and address of company, and name of the agent.

317. What is the principal advantage of keeping an Insurance Register?

The Insured is able to determine in a few minutes the exact status of each insurance policy held by the district. It provides the same convenience in business management as is provided by the Bond Register or Register of Short-Term Indebtedness.

318. Where may Insurance Registers be obtained?

It is possible to purchase them from commercial firms which specialize in the printing of school accounting forms. Some insurance companies, as a complimentary service to their policyholders, will furnish the Register free of charge.

C. FIRE LOSS ADJUSTMENT

319. What responsibility is placed upon the Insured immediately following a loss?

a. Written notice of loss must be sent promptly to the companies insuring the property.

b. The property must be protected from further damage.

c. Damaged and undamaged property must be separated.

d. A complete inventory must be made of destroyed, damaged, and undamaged property, showing in detail the quantities, costs, actual cash value, and loss claimed.

320. Why is a separate inventory of destroyed and damaged property required?

In the case of destroyed items, the adjuster must determine their value at the time of the loss. His concern in the case of damaged items is to determine the cost of replacing them to the condition they were in prior to the fire.

321. What kinds of information are desirable for showing quantities, costs, cash value, and amount of loss claimed?

a. A full description of the destroyed or damaged items.
b. The physical condition of insurable items at the time of loss.
c. The approximate age of the damaged or destroyed items.

322. What records are helpful in providing such information?

Fixed assets inventory records maintained by either the district itself or by a commercial appraisal company, and purchase order records are probably the best sources of such information.

323. Is it the obligation of the adjuster to assist the Insured in completing a Proof of Loss?

No. The Insured is responsible for presenting all of the necessary facts about the claim in the Proof of Loss. However, the adjuster does have the obligation to see that the Insured is treated fairly, and that he receives all of the benefits to which he is entitled under the policy. If the adjuster is aware of any item omitted by the Insured which would have been covered, he should bring the matter to the Insured's attention.

324. What happens when the Insured and the company fail to agree on the amount of the settlement?

a. On the written demand of either the Insured or the company, each shall select a competent and disinterested appraiser within 20 days of such demand.

b. The appraisers attempt to select a competent and disinterested umpire.

c. If the appraisers fail to agree on such an umpire within 15 days, either the Insured or the company may request such umpire to be selected by a judge of a court of record in the state in which the insured property is located.

d. The appraisers then appraise the loss, stating separately the value and extent of damage to each item. If they fail to agree, they submit their differences to the umpire for adjudication.

e. Each appraiser shall be paid by the party selecting him, and the expenses of the appraisal and umpire borne equally by the company and the Insured.

325. When is the Insured entitled to payment for a loss?

The Insured must be paid within 60 days after the amount of loss has been determined.

326. How can a school district best prepare itself for a satisfactory adjustment of a fire loss?

By putting into effect an adequate insurance program before the loss occurs, and by maintaining proper records on both real and personal property. The adjuster needs factual information. It is too late to think about the insurance you should have had and the records you should have kept after a fire occurs.

D. PLACING INSURANCE

327. How can the stability and financial standing of an insurance company be determined?

a. Best's Insurance Guide with Key Ratings gives statistical exhibits and key ratings showing the position of each company in comparison with the companies of similar type. The ratings are based on adequacy of reserves, and underwriting profit or loss.

b. The New York State Insurance Department can advise school districts of the financial standing of any company licensed to do business in the State.

328. Where can a school district obtain competent insurance advice?

Such advice can often be obtained from insurance agents or brokers, or from insurance company personnel at the request of agents or brokers.

Completely impartial advice is available from outside insurance consultants and from the State Education Department.

329. What criteria should be used in evaluating the importance of the various kinds of insurance?

If a school district were to purchase all available types of insurance, with limits sufficient to cover the most extreme losses which could occur, the cost of the insurance program would be prohibitive. Therefore, it is necessary to have some plan for selecting the coverages which will be written for the protection of the district.

Consideration of the various kinds of insurance described in this handbook reveals that some of the coverages deal with

losses which are relatively frequent, but ordinarily of moderate size. Breakage of plate glass and theft of school property are examples. Other coverages insure losses which, fortunately, are infrequent, but which may be catastrophic when they do occur. Boiler explosions, major fires, and serious bus accidents are all examples of this latter category.

In creating the insurance program for the district, it seems prudent to provide as adequately as possible insurance against hazards which can cause losses of major proportions. For example, the same number of dollars which would be required to purchase Theft Insurance on contents in school buildings might purchase higher limits on the district's General Liability policy, which would be adequate to cover even a most severe accident.

The arrangement of an adequate insurance program for a specific school district requires a combination of professional knowledge and judgment, but the concept of providing first for catastrophic losses should always be kept in mind by the governing body.

330. What are some of the methods of placing the school insurance program?

a. Some districts have no established method. Insurance may be divided among two or more agents or brokers, based upon tradition, in many cases. In some cases a few agents or brokers write the policies, but commissions are shared with other area agents or brokers. This approach may have the virtue of simplicity, in that the problem of placement of the program is solved with a minimum of bother. It may well result in relatively high premiums and an inefficient program, however, since it lacks a device for periodic, comparative re-appraisal of insurance needs and costs. The element of competition is missing. A major failing is the fact that it lacks overall supervision, which can easily result in duplication of coverage and omission of important coverage.

b. Another method is similar, but involves designation by the board of one agent or broker who writes all of the district's insurance. In some cases the designated agent or broker shares commissions with other agents or brokers in the area. Another, or other, agents or brokers may write some of the policies, but the designated agent or broker is responsible for advising the board as to all

aspects of the insurance program. This approach should eliminate the problem of lack of overall supervision, but it is likely to involve the other disadvantages outlined in a. above. In an effort to achieve some measure of cost competition, some boards ask the designated agent or broker to periodically obtain quotations from other insurers with whom he customarily places insurance. Substantial re-appraisal of insurance needs is unlikely, however, and competition from other than the designated agent or broker's usual sources is not obtained.

c. A third approach is for the district's insurance to be cared for by an "insurance committee" of local agents or brokers. The intent is that the committee members will combine their expertise to develop the most efficient insurance program possible, and, through the committee's review of quotations obtained by each member from his usual sources, provide the program at the best possible cost. One member usually writes the insurance and shares the commission with the other members. The committee provides ongoing advice through periodic meetings among themselves and with the school officials. If the approach operates as intended, competition is enhanced and a broader perspective as to insurance needs and methods is achieved. In practice, however, this approach often deteriorates to the point where members compete against each other to write the school district account, or develop an arrangement whereby each member takes a turn at writing the account and shares his commission with the others who provide no input.

d. A fourth method is to request competitive quotations based upon detailed specifications. Results are usually favorable if the specifications have been carefully drawn. A variation of this method is to simply request agents or brokers to quote the program without providing specifications. This is generally unsuccessful, since the quotations received are not comparable without detailed specifications, and award of the program cannot be made on a fair and rational basis. Technical assistance is generally needed for the development of the specifications and evaluation of the proposals received.

e. Another method is to place the insurance in a cooperative "group" program with other school districts. Based upon the initial success of the Workmen's Compensation Safety Group described in the answer to Question 334, the Capitol Area Chapter of the New York State Association of School Business Officials began implementing another Safety Group

in early 1974 to provide all other kinds of school insurance except Student Accident and employee benefits coverage. This method is not necessarily an alternative to the competitive quotation method: Competitive quotations can be sought from the groups at the same time they are sought from usual market sources.

331. Is it a desirable practice for the agent(s) or broker(s) who write the insurance to share a portion of the commission with other agents or brokers?

In cases where the "committee" approach actually works as intended, there may be some justification for this otherwise undesirable practice. In most cases, however, it operates to the district's disadvantage. Where the commission is shared, it is highly unlikely that the writing agent will negotiate a reduction in commission with his companies. It tends to stifle competition in that agents receiving commission for no effort, have little incentive to compete. In any event, it is contrary to the insurance law unless those receiving a share of the commission are licensed as brokers, or represent as agents, the companies which write the insurance.

332. How is it possible to save premium costs through competitive quotations if all insurance companies charge the same rates?

All insurance companies do not charge the same rates. A change in the Insurance Law effective January 1, 1970 enhanced competition by permitting use of new rates and forms without prior Insurance Department approval, and by prohibiting insurance companies from agreeing among themselves concerning rates.

In addition, agents and brokers can negotiate with their insurance companies for reduced commission levels with respect to individual risks. They are unlikely to do this, however, unless faced with competition for a desirable account.

333. What are the advantages and disadvantages of placement by the district of its insurance program through the competitive quotation process?

a. Possible Advantages

1. The competition generated produces lower overall costs than other methods that a district might use in placing its own insurance program;

2. It provides a fair and equal opportunity for interested agents and brokers to compete for the account; and

3. It provides an equitable method of correcting undesirable situations, such as where coverage is provided by a number of agents or brokers without overall supervision, where commissions are being shared without benefit to the district, or where real or alleged problems of favoritism exist.

b. Possible Disadvantages

1. If undertaken too frequently, a number of insurers may decline to quote;

2. The initial premium gain may be offset by less and/or poorer quality agency and company service; and

3. Insurers who can depend upon writing the account only until the next Request for Quotations may be quicker to react to poor loss experience by imposition of deductibles or cancellation of part of the program.

334. What is the name of the Workmen's Compensation "Safety Group" mentioned in the answers to Questions 295 and 299, and how does it function?

The official name is the New York School Business Officials Safety Group, State Fund Workmen's Compensation Group 491. An Executive Committee of school officials from participating school districts oversees the operation of the Group and provides direction for the Group Manager, who is an insurance professional. A Safety Committee of school officials from participating districts works with the Group Manager and State Insurance Fund loss control personnel to develop and implement a safety and loss control program. Participating districts each receive a policy which is individually experience rated, just as they would if written as individual risks with the State Insurance Fund, except that the initial premium is discounted by 15 percent rather than by 25 percent. Six months after the end of each year, the Group earnings are calculated. A portion of the earnings are retained in a reserve fund to assure a relatively consistent cost, and the remainder is distributed on a pro rata basis as dividends to participants, after deduction for operating expenses. Originally developed by the Capitol Area Chapter of the New York State Association of School Business Officials, this Safety Group has shown definite promise for significant reductions in Workmen's Compensation premiums.

E. ECONOMIES IN THE INSURANCE PROGRAM

335. What are some of the ways in which economies can be achieved in school insurance?

In the long run, the surest and most effective way to reduce insurance costs is to reduce losses. This can be accomplished through the implementation and practice of safety and loss control measures. There are, however, steps that can be taken relative to the insurance program itself:

a. Make certain that school property is appraised properly. If the district is overinsured, public money is being wasted on unnecessary premiums; if underinsured, the district is being exposed to possible serious loss.

b. Include in the building value all items which can be insured at building rates. By incorrectly including such items with the contents, the district will pay the higher rate which applies to contents insurance.

c. Avoid duplicating coverage on the same item under different policies. For example, items insured on Marine Floater policies should not also be covered under Fire Insurance or Automobile Physical Damage.

d. Take advantage of savings permitted for writing coverage on a term basis.

e. Make certain that the district is receiving all premium discounts to which it is entitled.

f. Obtain and review the Fire Rate Makeup from the Insurance Services Office, to see whether Fire Insurance rating penalties can be reduced or eliminated.

g. Give consideration to deductible features of policies which may be written on this basis, in order to secure a reduction in premium.

h. Investigate all experience modification charges on policies which are experience rated. In particular, it is recommended that insurance carriers be required to report at least semiannually on all Incurred Losses which are charged against the district's experience record.

The goal should be to obtain the best insurance coverage for the district at the lowest possible cost, but giving proper emphasis to the services and strength of the carrier as well as the premium cost.

336. Is it possible to outline a typical school insurance program?

There is no single insurance program that can be considered truly typical. Most, however, utilize various combinations of the alternatives illustrated in the following outline. It should not be assumed that all of the coverages or policies in the outline are necessary to an adequate program. Conversely, all of the coverages that might be needed are not listed.

I. SPECIAL MULTI-PERIL POLICY

A. Fire and Related Perils

1. Standard Multi-Peril form with coinsurance clause in force, or Special Institutional form with Agreed Amount clause
2. Fire, Extended Coverage and Vandalism, or "All Risk"
3. 80% coinsurance Specific, or 90% coinsurance Blanket
4. Actual Cash Value or Replacement Cost
5. Builders' Risk endorsement, for new buildings under construction
6. Extra Expense endorsement

B. General Liability

1. Bodily Injury and Property Damage Liability
2. Personal Injury (libel, slander, etc.) Liability
3. Incidental Medical Malpractice
4. Comprehensive form
5. Liability coverage for statutory obligations to protect board members, officers, and employees
6. Coverage for outdoor stadia, grandstands, or bleachers
7. Contractual Liability, to cover liability of others assumed by contract

8. Products and Completed Operations coverage

9. Independent Contractors coverage

10. Immediate Medical (First Aid) coverage for pupils. (Not carried by districts with Blanket Student Accident coverage)

C. Crime

1. Money and Securities Broad Form or Safe Burglary and Robbery Inside and Outside premises

2. Mercantile Open Stock Theft and/or Burglary

3. Public School System Employee Blanket Bond, including or not including coverage on officers and employees required by law to file official undertakings

D. Inland Marine Floaters

1. Camera (audio-visual equipment)

2. Contractor's Equipment (grounds maintenance equipment)

3. Musical Instruments

4. Fine Arts

E. Boiler (often separate policy)

1. Limited coverage on steam objects only or Broad coverage on all objects

2. Actual Cash Value, or Repair or Replacement

3. Explosion Exclusion Endorsement

II. AUTOMOBILE LIABILITY AND NO FAULT, AND PHYSICAL DAMAGE POLICY (sometimes separate policy for physical damage)

1. Bodily Injury, and Property Damage Liability, and Basic No Fault Benefits

2. Comprehensive Liability form

3. Liability coverage for statutory obligations to protect board members, officers, and employees

4. Liability coverage for Owned, Hired, and Non-Owned vehicles

5. Driver Training car endorsement

6. School Bus endorsement

7. Repair and Testing endorsement

8. Collision (some districts do not carry Collision)

9. Fire and Theft or Comprehensive

III. CATASTROPHE LIABILITY POLICY

1. Excess coverage over all other liability coverage

2. Provides liability coverage where other liability doesn't apply, subject to insured retention ("deductible") of generally $10,000

IV. WORKMEN'S COMPENSATION AND EMPLOYERS' LIABILITY POLICY

1. Resolution to include elective and appointed officers

V. OFFICIAL UNDERTAKINGS

1. Separate bonds on Treasurer, Tax Collector, and others, or all included under Blanket Bond.

VI. GROUP EMPLOYEE BENEFITS POLICIES

1. Hospitalization and Medical-Surgical, Major Medical

2. Life

3. Income Protection

4. Dental

VII. STUDENT ACCIDENT POLICY (Many districts do not carry Blanket coverage)

1. Interscholastic sports only, or Blanket on all pupils

337. What is the concept of Risk Management?

Risk Management is concerned with the development of techniques for identifying and dealing with risks, or exposures to loss. The Risk Manager deals only with those risks of loss which involve no opportunity of gain, such as fire, flood, and liability claims, but not losses from fluctuations in market values or other business risks.

The Risk Manager is the insurance manager, but he also has a much broader function, since he should, properly, be involved with planning of operations from the early stages at which choices are available to minimize risk of loss.

338. What are the functions of a Risk Manager?

The first task of a Risk Manager is the identification of risks. Identification may involve physical inspection of real property, equipment, vehicles, and activities. It may also require review of budgets, operating records, and analysis of operations.

The second task is calculation of the severity of each risk, in order to undertake appropriate countermeasures.

339. Can you indicate some of the techniques used by a Risk Manager?

Some of the measures which the Risk Manager may take are avoidance, reduction, assumption, and transfer of risk to others.

Avoidance:

Under the concept of avoidance, a Risk Manager in a district contemplating construction of a building in an area known to be susceptible to floods would select the location least likely to be inundated, would consider diking around the property, or waterproofing the portion of the structure below the flood line.

Reduction:

The concept of reduction of risk may be illustrated by installation of a sprinkler system in a non-fire-resistive school building. The automatic sprinkler system would greatly reduce the possibility of fire damage, and improve life safety. In this instance, the cost of the reduction of risk, the sprinkler system, may be offset by reductions in fire insurance costs over the life of the building.

Assumption:

The concept of assumption of risk, sometimes referred to as self-insurance, arises when the party which is exposed to loss absorbs the loss itself. The Risk Manager's function is to identify those risks which may safely be handled in this fashion, and is in no sense a blind acceptance of fate. For instance, the Risk Manager may determine after a study of the school's records that it will be cheaper to purchase glass in quantity and replace broken windows with the school's own staff, rather than to purchase Plate Glass insurance.

The deductibles which are selected by the Risk Manager on certain types of insurance are also examples of assumption of risk. In a district with a large fleet of vehicles, the Risk Manager may find that it is less costly to purchase Collision insurance with a $250 deductible and have the district pay for repairs below this level, than it is to pay the higher cost for Collision insurance with a $50 or $100 deductible.

Transfer:

The Risk Manager may be able to transfer certain risks of loss to others. When arranging for construction of a new building, the Risk Manager may include in the specifications a provision that the contractors will "indemnify and save harmless" the district against claims for bodily injury or property damage which arise out of construction operations. In this instance, the district is, in effect, transferring part of its liability exposure to the contractors during the construction period.

Another example of transfer of risk arises from the very fact that contractors are employed to perform certain operations. The transportation of pupils by independent contractors transfers to those contractors many of the liability risks which would otherwise fall upon the district, in addition to relieving the district of exposure to Workmen's Compensation claims by the drivers. Elimination of these risks may be one of the

factors in deciding whether transportation of pupils will be handled by the district or by independent contractors.

Risks may also be transferred to professional risk-bearers. Here we are back in the field of insurance. Where the Risk Manager identifies risks which are too serious to assume, which cannot be avoided, reduced, or transferred to independent contractors, the only solution may be the purchase of appropriate insurance, thereby transferring the risk of loss to an insurance company. In this sense, it can be seen that insurance is only one of the tools used by the Risk Manager, and is, in fact, the last solution when other methods of eliminating, reducing, or transferring the risk to others are not practical.

APPENDIX A

HELPFUL INSURANCE TERMS

ACCIDENT - Something that happens unexpectedly; a fortuitous event; a casualty; a sudden and unintended happening.

ACT OF GOD - An accident or event that is the result of natural causes, without any human intervention or agency, that could not have been prevented by reasonable foresight or care, e.g., floods, lightning, earthquake, storm.

ADJUSTER - A person who investigates a claim and determines the liability of the company for payment of a specific loss under an insurance contract. He may be either an employee of the insurance company or an independent adjuster who is licensed to adjust claims as an independent contractor.

ADVANCE PREMIUM - The premium paid when the policy is written. In some forms of insurance the premium is based on payroll or other fluctuating factor. In such cases it is common to collect an estimated advance premium, usually called the Deposit Premium, and then, at the end of the policy term, recalculate the premium on the basis of the actual exposure as developed by an audit.

AGENT - An individual, firm, or corporation licensed to represent one or more insurance companies in the solicitation and writing of insurance policies.

ALLIED LINES - Forms of insurance which are related. For example, Fire Insurance Allied Lines are Windstorm, Explosion, Vandalism, and Malicious Mischief, and so forth.

APPRAISAL - An evaluation of property made to determine its actual cash value and/or its replacement cost. An appraisal is valuable in determining the amount of insurance to be written and in the settlement of losses.

AUDIT - An examination of the Insured's books and records by a representative of the insurance company to determine actual exposures for premium computation purposes.

AVERAGE WEEKLY BENEFIT - The amount payable per week for disability or death, usually called Compensation in the New York Workmen's Compensation Law. It is calculated as a percentage of the average weekly wage, subject to a minimum and maximum amount.

BINDER - A temporary contract of insurance pending the issuance of a policy. While oral binders are legal, written binders are preferred to reduce chance of disagreement as to the nature and extent of coverage.

BLANKET INSURANCE - An insurance policy which covers several different properties or which applies a single amount of insurance to both buildings and contents.

BROKER - An individual, firm, or corporation licensed to act as the representative of the Insured in negotiating insurance contracts. While the broker is legally the representative of the Insured, he is usually paid a commission by the insurance company which provides the insurance.

BROKER OR AGENT OF RECORD FORM - A form executed by an Insured which authorizes the Insurance Services Office to release to the agent or broker named in the form, detailed information which the ISO has developed and used to establish specific rates for the insured's property. Such rates are published by ISO, but the detail used in their promulgation is privileged information.

BUILDERS' RISK - A form of Fire and Related Perils Insurance which applies to a structure during the period of erection. Builders' Risk policies can cover the respective interests of the owner and the contractors.

CANCELLATION - The termination of an insurance contract before the date of expiration given therein. Most policies extend right of cancellation to both the Insured and the company. See pro rata and short rate.

COINSURANCE CLAUSE - A clause in a property insurance policy which provides that the Insured must insure his property for not less than a stipulated percentage of its current value, if he is to recover the full amount of a loss. Lower rates apply to coverage written subject to coinsurance.

COMMON LAW - The body of law which is based upon past court decisions in this country and in other English-speaking countries, rather than upon statutes enacted by legislative bodies.

COMMON LAW LIABILITY - The responsibility for injuries or damage imposed upon a party because of his actions, by that part of the law based upon custom and usage as established by the courts, as distinguished from liability under statutes enacted by a legislative body.

CONCURRENT INSURANCE - Two or more insurance policies written for the same or different amounts, but with the same conditions which cover the same interest in a given property.

CONSEQUENTIAL LOSS - An indirect loss which stems from a fire, accident, or other event. For example, spoilage of food which results from accidental damage to a refrigerating system is a consequential loss.

CONTINGENT LIABILITY - Liability imposed upon an individual, corporation, or other entity, because of accidents caused by persons (other than employees) for whose acts the first party may be responsible.

DEDUCTIBLE - A provision which makes the insurance company liable for only that portion of the loss which exceeds a stated amount. Deductible clauses reduce the cost of insurance by eliminating coverage on small losses.

DEPRECIATION - The reduction in value of property which results from usage or obsolescence.

DIRECT LOSS - Damage to property which is the direct and immediate result of a fire, explosion, or other occurrence.

DIVIDEND - A share of surplus allocated to a policyholder in a participating insurance policy.

EARNED PREMIUM - The percentage of the paid premium equal to the percentage of time the policy has been in force during the policy period. As used with respect to a policy which is subject to audit to determine actual exposure units, such as the number of pupils in average daily attendance for General Liability, the final premium developed by applying the rates to the audited exposure units and any applicable adjustments, such as premium discount and experience modification factors.

ENDORSEMENT - A written record of a change made in an insurance contract.

EXCLUSION - A provision in an insurance policy or bond referring to hazards or to property with respect to which no insurance is afforded.

EXPERIENCE RATING - A method for varying the premium for the year ahead by a factor which is calculated by comparing the actual losses sustained by the Insured in a previous period of years with the losses of an Average Risk.

FAIR PLAN OR FIRE POOL - Common names for the New York Property Insurance Underwriting Association. The Association was established by the Legislature in 1968 to provide Fire Insurance for any person or organization having an insurable interest in real or personal property who has been unable, after diligent effort, to find a normal insurance market. The Fair Plan makes available Fire, Extended Coverage, Vandalism and Malicious Mischief, and Sprinkler Leakage. Information can be ob-

tained from insurance agents and brokers or by writing the Plan at 110 William Street, New York, New York, 10038.

FLOATER POLICY - A contract of insurance which covers property of a movable nature, wherever it may be within geographical limits stated in the policy. Inland Marine Insurance.

GROUP INSURANCE - An insurance plan by which a number of employees and their dependents may be insured under a single policy, issued to their employer, with individual certificates of the coverage provided to each insured employee. Commonly written group lines are Life, Hospitalization, Surgical and Medical Expense, Disability Income, Major Medical, and Dental Expense.

HAZARD - A cause of possible loss, such as fire, windstorm, and the like.

INDEMNITY - Payment to the Insured for actual losses sustained.

INHERENT VICE - A term used in Marine Insurance which means a defect in the items of property insured. Loss occasioned by inherent vice is a basic exclusion in "All Risk" Marine forms.

INLAND MARINE INSURANCE - Various types of insurance developed originally by Marine underwriters to cover goods while in transit by other than ocean vessels. Now includes forms covering any goods in transit, except transocean, and numerous Floaters on property, such as musical instruments, the essential condition being that the insured property is movable.

INSURANCE CONSULTANT - An individual, firm, or corporation licensed by the New York State Insurance Department to provide information and advice on a fee basis. Separate licenses are issued for General Insurance and for Life Insurance.

JUDGMENT - In Liability Insurance this term is used to refer to a court award of monetary damages.

LIABILITY - A legal obligation. Responsibility.

LIBEL - A written or printed statement which tends to unjustly damage a person's reputation.

LIMIT OF LIABILITY - The maximum amount which an insurance company is obligated to pay in case of loss under a specific policy.

MAJOR MEDICAL POLICY - A policy which provides a high limit of coverage on medical expense beyond those covered by ordinary Hospitalization, Medical and Surgical, and similar coverage. Major Medical

policies are usually written with an individual or family deductible, and contain a provision which requires the Insured to pay a specified percentage, such as 20 percent, of the remaining expense.

MINIMUM PREMIUM - The smallest premium a company will accept for insuring a given risk or exposure.

MORAL HAZARD - The possibility of loss being caused or aggravated by dishonesty or carelessness of the Insured, his agents, or employees. It arises from the character and circumstances of the Insured, apart from the nature of the interest or property covered, or its location, which latter is called the Physical Hazard.

NAMED PERILS FORMS - The name used to describe Property Insurance forms which insure against only those types of losses which are specifically listed and defined in the policy.

NEGLIGENCE - Failure to use the degree of care which an ordinary person of reasonable prudence would use under the given circumstances. Negligence may be constituted by acts of either omission, or commission, or both.

OBLIGEE - The interest protected by a Fidelity or Surety Bond.

OCCURRENCE - An event or happening. As used in Liability policies, the word Occurrence is usually defined as including continued or repeated exposure to conditions which cause injury or damage.

OMNIBUS CLAUSE - That agreement of the National Standard Automobile Liability Policy which, by its definition of Insured, extends the protection of the policy to interests embraced by the definition without the necessity of specifically naming them in the policy.

POLICYHOLDERS' SURPLUS - The sum of the funds in the hands of an insurance company over and above its liabilities, which are held for the protection of its policyholders; that is, the total of the Capital (if any) and the Surplus. In general, this is a measure of the strength of the company.

PRINCIPAL - In a Surety Bond, the party whose actions or performance is guaranteed. In a Fidelity Bond, the employee who is covered is the Principal.

PROOF OF LOSS - A formal sworn statement made by the Insured to the insurance company regarding a loss. The purpose of the Proof of Loss is to place before the company sufficient information concerning the loss to enable it to determine its liability under the policy or bond.

PRO RATA - Calculation of the earned or return premium in direct proportion to the period of time the policy has been in force.

PROXIMATE CAUSE - The dominating cause of loss or damage; an unbroken chain of cause and effect between the occurrence of an insured peril and damage to property or persons; that is, fire is the proximate cause of damage done by water used in extinguishing it.

RATE - The cost of a unit of insurance. The unit varies by the form of insurance, being per $100 of insurance for Fire; per $100 of remuneration for Workmen's Compensation; per vehicle for Automobile Liability; etc.

RATING BUREAU - An organization whose function is the computation of rates for insurance contracts, and the creation of standard forms for use by its members and subscribers.

REPLACEMENT COST - The cost to replace the property in brandnew condition at the present time.

RESERVE - A name applied to funds which are set aside for specific purposes, such as reserves for unearned premiums and reserves for losses in process of adjustment.

RETROSPECTIVE RATING - An optional method of premium adjustment which permits re-calculation of the premium for the risk after the expiration of the policy, on the basis of the losses incurred. Minimum and maximum premiums apply, which are usually lower and higher, respectively, than the Insured would realize if insured on an ordinary basis.

SHORT RATE - A method of calculating the earned premium on a policy, which penalizes the Insured by charging an earned premium which is higher than the pro rata charge. Most policies provide for a short rate cancellation if the Insured elects to cancel his policy before the normal expiration.

SLANDER - A false statement which is injurious to the reputation of another person.

SPECIAL FORMS - The name given to property insurance forms which insure against all risks of loss or damage except for perils specifically excluded. Most such forms in reality contain numerous exclusions and exceptions, but they do provide broader coverage than "Named Perils" forms.

SPECIFIC INSURANCE - A method of arranging Fire Insurance coverage to provide a definite amount of insurance on each item (that is, each building and the contents of each building) which is insured.

SPRINKLER LEAKAGE INSURANCE - Coverage against damage caused by accidental discharge or leakage of water from an automatic sprinkler system.

SUBROGATION - In insurance, the assumption by the insurer of its Insured's right of recovery under common law against a third party who caused a loss, after the insurer has paid the Insured for the loss, so that the insurer can pursue an action against the third party to recover the amount of its loss payment.

UNDERWRITER - An official or employee of an insurance company who determines whether an offered risk is to be assumed, and, if so, on what terms. Also used to mean an insurance carrier.

WARRANTY - A provision in the policy as to the existence of a fact or condition relating to the subject of the insurance which will void the policy if untrue. For example, a Messenger Robbery policy may warrant that the messenger will be accompanied by a guard when carrying money.

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